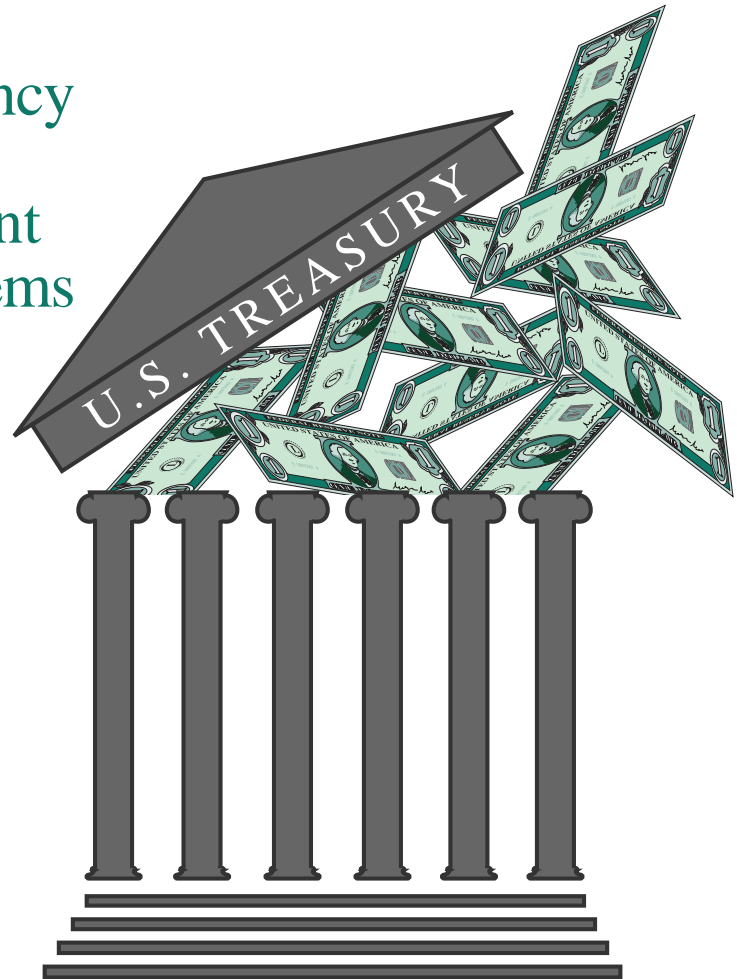




Government at the Brink

Volume II.

An Agency by Agency
Examination of
Federal Government
Management Problems
Facing the Bush
Administration



Senator Fred Thompson

Committee on
Governmental Affairs
United States Senate

Washington, DC

June, 2001

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I. Department of Agriculture

[T]he Department, as a whole, does not know whether it correctly reported monies to be collected in total, how much money is collected, the cost of its operations, or any other meaningful measure of financial performance.

Our annual financial statement audits, which we have performed since 1991, have disclosed only a limited correlation between the accounting numbers the Department reports and the resources or events those numbers are to represent.

**Roger C. Viadero
Inspector General
U.S. Department of Agriculture¹**

The U.S. Department of Agriculture is one of the largest federal agencies, employing over 110,000 people and managing a budget of over \$65 billion. Its 29 sub-agencies and offices are responsible for operating over 200 programs that support the profitability and productivity of farming, protect the environment, ensure food safety, improve the well-being of rural America, promote domestic marketing and the export of farm products, conduct agricultural research, and provide food assistance to needy Americans.

Repeated studies by both the GAO and the Agriculture Department's own IG have documented over 15 core management problems that plague the Department.² Two of the problems—information security and Forest Service financial management—are on GAO's "high-risk list" of those federal activities that are most vulnerable to fraud, waste, abuse, and mismanagement.

The following is a brief description of eight of the most serious core management problems at the Agriculture Department. These problems are:

- C Weak oversight of federal crop insurance programs;
- C Food stamp fraud and error;
- C Abuses in the Child and Adult Care Food Program;
- C Fragmented food safety programs;
- C Rural rental housing fraud and abuse;
- C Delays in handling civil rights complaints;
- C Financial mismanagement; and
- C Poor use of information technology.

¹ Testimony before the Senate Agriculture Committee's Subcommittee on Research, Nutrition, and General Legislation (September 27, 2000).

² GAO lists eight such problems in its report, "Major Management Challenges and Program Risks: Department of Agriculture," GAO-01-242 (January 2001). The IG lists many of the same problems in its report, Department of Agriculture, Office of Inspector General, "Top Ten Management Challenges for the Department of Agriculture" (December 4, 2000).

Federal Crop Insurance

Crop insurance is the farmer's "safety net." In late 1999 and in 2000, Congress provided about \$28 billion for agricultural programs including crop loss payments, tobacco payments, oilseed payments, livestock assistance, and dairy assistance. These programs need stronger oversight. IG audits show continuing conflict-of-interest problems that involve policyholders, sales agents, loss adjustors, and insurance companies' employees. Weaknesses in verification of losses by adjustors have resulted in insurance overpayments and other program abuses. For example:

- A husband and wife were convicted on almost 50 charges, ranging from conspiracy to mail fraud to making false statements to obtain Agriculture Department program payments. Over a ten year period, the couple wrongfully received over one million dollars under various crop insurance programs.³

Food Stamp Program

The Food Stamp Program, which is administered by the states, helps put food on the table of some 7.6 million households and 18.2 million individuals each day. It provides low-income households with coupons or electronic benefits they can use like cash at participating grocery stores to ensure that they have access to healthy food. Unfortunately, the program is highly vulnerable to fraud and error. Many ineligible recipients and retailers participate in the program, and controls to identify payments to disqualified retailers are in danger of becoming ineffective. Also, states continue to claim administrative costs that should not be reimbursed by the Agriculture Department. A few examples of fraud, waste, and abuse are listed below:

- In fiscal year 1999, an estimated \$1.1 billion was erroneously paid in food stamp benefits to ineligible recipients while eligible food recipients were underpaid by \$450 million. Together, these errors of about \$1.5 billion amounted to nearly 10 percent of the total food stamp budget.⁴
- Since 1997, law enforcement authorities have arrested 6,733 fugitives who were illegally receiving food stamps. They include 1,500 accused drug offenders, 31 murderers, 45 sex offenders and child molesters, and hundreds wanted for assault or robbery.⁵
- Thousands of prisoners and deceased persons have been included as members of

³ Department of Agriculture, Office of Inspector General, "Semiannual Report to the Congress" (September 30, 2000), p. 17.

⁴ General Accounting Office, "Food Stamp Program: States Seek to Reduce Payment Errors and Program Complexity," GAO-01-272 (January 2001).

⁵ Department of Agriculture, Office of Inspector General, "Operation Talon: October 2000 Update."

- households receiving food stamps.⁶
- IG investigations have uncovered numerous cases of food stamp trafficking or fraudulent receipt of food stamps by ineligible persons. The co-owner of a New York City grocery store laundered \$1.3 million worth of trafficked food stamps through his store. A bar employee with a history of narcotics violations exchanged cocaine for food stamps, becoming one of 17 street traffickers found to have purchased over \$269,000 in food stamps from undercover officers and then selling them to authorized food retailers in Seattle. Twenty-four Southern California grocery stores engaged in an estimated \$50 million worth of food stamp fraud between 1994 and 1997.⁷

Child and Adult Care Food Program

The Child and Adult Care Food Program reimburses day care providers for meals served to people in their care. The program is administered by state agencies through sponsor organizations that act as a link between the state agencies and day care providers. In fiscal year 1999, day care providers served 2.6 million participants at a cost of \$1.6 billion. Audits of program sponsor organizations have uncovered a widespread breakdown of controls. An investigative effort named “Operation Kiddie Care” identified 47 sponsors with deficiencies serious enough to warrant termination from the program. These 47 sponsors had been receiving approximately \$82.7 million annually in food and administrative funds.⁸ For example:

- A Georgia program sponsor was terminated from the program for inflating meal counts and creating fictitious child participants in the program.⁹
- Two New York women pled guilty in federal district court to embezzling \$75,000 from the program. The pair, who were directors of a meal service for day care centers, transferred program funds into their personal bank accounts. They used the money for personal expenses, including a Hawaiian vacation, jewelry, clothing and gifts.¹⁰

⁶ General Accounting Office, “Major Management Challenges and Program Risks: Department of Agriculture,” GAO/OCG-99-2 (January 1999).

⁷ Department of Agriculture, Office of Inspector General, “Semiannual Report to the Congress” (September 30, 2000), p. 20.

⁸ Department of Agriculture, Office of Inspector General, “Top Ten Management Challenges for the Department of Agriculture” (December 4, 2000), Enclosure, p. 4.

⁹ Department of Agriculture, Office of Inspector General, “Semiannual Report to the Congress” (September 30, 2000), p. 22.

¹⁰ Department of Agriculture, Office of Inspector General, “Mother and Daughter Plead Guilty to Embezzling Child Care Funds,” News Release (May 8, 2000).

Food Safety

The Agriculture Department is responsible for the safety of meat, poultry, and some egg products. It is estimated that unsafe foods cause as many as 76 million illnesses, 325,000 hospitalizations, and 5,000 deaths in the United States each year. They cost up to \$37 billion annually in medical expenses and productivity losses. According to the IG, the Department needs to improve in four areas: (1) implementation of new pathogen reduction and inspection systems; (2) compliance and district enforcement activities; (3) laboratory testing of meat and poultry products; and (4) inspection of imported meat and poultry products. There also is a critical need to ensure that criminal activity is identified and halted in cases involving the intentional contamination of food products consumed by the public; the processing and sale of adulterated meat, poultry, and egg products; and the substitution, adulteration, or other misrepresentation of food products.¹¹

According to GAO, the most serious food safety challenge is fragmented jurisdiction among federal agencies. As many as 12 different federal agencies administer over 35 different food safety laws. For example, the Agriculture Department inspects meat pizzas while the Food and Drug Administration, which is part of the Department of Health and Human Services, inspects non-meat pizzas. They also have completely different ways of conducting inspections. The Agriculture Department inspects plants under its jurisdiction once a day, while the Food and Drug Administration inspects its plants an average of once every 5 years.¹² Among the more serious problems are the following:

- More than one-fourth of the over \$1 billion annual federal food safety budget could be used more effectively if the statutory requirement for carcass-by-carcass slaughter inspections was eliminated. These inspections don't detect the most serious health threats and the resources they require could be applied to higher priority safety needs.¹³
- The Agriculture Department has reduced its oversight of meat and poultry plants below what is prudent and necessary to protect consumers. For example, it does not require plants to provide its inspectors with positive environmental microbial tests results, even though these tests could indicate sanitary deficiencies at the plants. It does not adequately track deficiency notices or require corrective action. One plant did not respond to a deficiency notice for over 4 months. Some plants had repetitive deficiencies. One had 102 deficiency notices, one-third of which involved the same non-compliance concerning

¹¹ Letter from Roger Viadero, Inspector General, Department of Agriculture, to Senator Fred Thompson, December 4, 2000, Enclosure, p. 4-5.

¹² General Accounting Office, "Major Management Challenges and Program Risks: Department of Agriculture," GAO-01-242 (January 2001).

¹³ *Ibid.*

- fecal matter.¹⁴
- The Department is responsible for ensuring that imported meat and poultry are safe and wholesome. It does this by determining whether foreign countries have food safety systems equivalent to ours (“equivalency determinations”) and by spot-checking imports. However, control weaknesses affect all areas of the import inspection program. Requirements for annual certifications and residue test plans go unenforced; the eligibility status of importers is not kept current; and equivalency determinations are not based on adequate analysis and support.¹⁵

Rural Rental Housing

The Rural Rental Housing Program provides low-cost apartments to people with low incomes in rural areas. In FY 2000, the government provided approximately \$640 million in rental assistance and interest credit subsidies for tenants residing in apartment complexes. The Agriculture Department currently has over \$12 billion invested in the program’s properties through its outstanding loans, even though the program is highly vulnerable to fraud and abuse.

- An IG review of 11 farm labor housing projects in California, Florida, and Washington identified \$475,000 in improper costs charged by the borrowers and other overpayments. In Washington, the IG found that one housing authority overcharged its three projects almost \$397,000 in management fees between 1996-1998.¹⁶ In California, a regional manager of a Rural Rental Housing complex was convicted of conspiracy to defraud the government by using project funds for personal use, paying dummy companies for landscaping never carried out, stealing money from coin-operated laundries at Program facilities, and taking kickbacks from contractors at the complexes.¹⁷

Civil Rights Complaints

The Office of Civil Rights is responsible for handling complaints of discrimination arising out of Agriculture Department employment activities and federally-assisted or federally-conducted programs. The Department needs to reengineer its complaint resolution process to deal with its ongoing problems. Among other issues, the Office needs to eliminate the backlog of civil rights

¹⁴ Department of Agriculture, Office of Inspector General, “Food Safety and Inspection Service: Implementation of the Hazard Analysis and Critical Control Point System,” 24001-3-At (June 2000).

¹⁵ Department of Agriculture, Office of Inspector General, “Food Safety and Inspection Service: Imported Meat and Poultry Inspection Process Phase 1,” 24099-03-Hy (June 2000).

¹⁶ Department of Agriculture, Office of Inspector General, “Semiannual Report to the Congress” (September 30, 2000), p. 25.

¹⁷ Department of Agriculture, Office of Inspector General, “Semiannual Report to the Congress” (March 2000), p. 26.

program complaints and explain how it computes damage awards and attorney fees. The database for the number and status of equal employment opportunity complaints is inaccurate and underutilized, and the case files are poorly maintained. These inefficiencies, along with the inability to meet time lines set by the Equal Employment Opportunity Commission, are attributable to the Office's constant reorganization and lack of employee accountability.

- The Inspector General calls the Department's Office of Civil Rights "a portrait of a dysfunctional agency."¹⁸ Based on the findings of a recent audit and on the Office's poor record of responding to recommendations from six prior audits, the IG stated, "it is difficult to recognize any significant level of progress."¹⁹

Financial Management

Because its financial management is so deficient, the Department can't ensure that its financial statements are reliable and presented in accordance with generally accepted accounting principles. The IG's "disclaimer of opinion" on the Department's annual financial statements for the past seven years means that the Department can't accurately account for or manage its assets of over \$124 billion or its program costs of over \$84 billion. For example, the IG has been unable to substantiate the Department's fund balance with Treasury, reported at over \$38 billion. The Department cannot even provide assurance that its financial management systems comply with statutory requirements.

A big part of the problem is that the Department operates under at least 66 different financial management systems. The IG states that the Central Accounting System, one of the Agriculture Department's most critical financial management systems, "does not work and cannot be fixed." Financial management at the Agriculture Department's Forest Service is on the GAO "high-risk list" of federal operations most vulnerable to fraud, waste, and abuse. The results of these problems show up repeatedly in the annual audits of the Department's financial statements:

- For fiscal year 2000—the seventh straight year—the Agriculture Department failed its annual financial audit. For the ninth straight year, the Department's financial systems failed to comply with basic accounting standards and principles. These pervasive problems stem primarily from the lack of oversight and planning at the Department's leadership levels.²⁰

¹⁸ Roger C. Viadero, Inspector General, Department of Agriculture, Testimony before the Senate Committee on Agriculture, Nutrition, and Forestry (September 12, 2000).

¹⁹ Department of Agriculture, Office of Inspector General, "Office of Civil Rights Status of the Implementation of Recommendations Made in Prior Evaluations of Program Complaints," 60801-4-HQ (March 10, 2000).

²⁰ Department of Agriculture, Office of Inspector General, "Report on the Department's Consolidated Financial Statements for Fiscal Year 2000" (February 2001).

- Due to financial system weaknesses and failure to perform annual inventories, the Department's figures for personal property assets, which totaled over \$888 million for FY1999, are inflated and impossible to verify. There are significant misstatements for items, such as a \$97 million vehicle and an \$11 million microscope.²¹

Information Resources Management

The Department has numerous information assets that include market-sensitive data on the agricultural economy and commodities, sign-up and participation data for programs, personal information on customers and employees, and accounting data. This information and related systems face unprecedented levels of risk from intentional or accidental disruption, disclosure, damage or manipulation. Public confidence in the security and confidentiality of the Department's information and technology is essential, yet IG audits continue to identify security deficiencies. The Agriculture Department's information technology security controls have widespread weaknesses that fail to adequately protect: (1) assets from fraud and misuse, (2) sensitive information from inappropriate disclosure, and (3) critical operations from disruption.

- The Inspector General has found over 600 security vulnerabilities in Agriculture Department computer systems. Systems that have been easily "hacked" include: the National Agricultural Statistics Service quantity/price database, which, if altered, could "drastically impact world commodity markets"; the \$56 billion rural development loan portfolio; and the Food Safety and Inspection Service database that ensures a safe meat and poultry supply.²²
- The Department of Agriculture's Forest Service was found to be allowing a private company to use "cookies" to collect information about users on the agency's Web site. Visitors to the Forest Service International Programs Web site were tracked by cookies that were placed on visiting computers by a private company. In return for the Web site "traffic reports" that the private company provided, the Forest Service had agreed to a number of terms and conditions, including granting the company co-ownership of the data collected by its cookies.²³
- In September 2000, the House Subcommittee on Government Management, Information and Technology gave the Agriculture Department an "F" in computer security. This was

²¹ Roger C. Viadero, Inspector General, Department of Agriculture, Statement before the House Subcommittee on Government Management, Information, and Technology (March 21, 2000).

²² Roger C. Viadero, Inspector General, Department of Agriculture, Statement before the House Appropriations Subcommittee on Agriculture, Rural Development, Food and Drug Administration, and Related Agencies (February 17, 2000).

²³ Senate Governmental Affairs Committee, "Administration Compromises Citizens' Privacy: Thompson Reveals Agency Policy Violations and Breaches of Computer Security That Leave Citizen Privacy at Risk," Press Release (October 20, 2000).

a step back from 1997, when the Department received a “D.”²⁴

²⁴ Cathy Newman, “Cyber-Security Called ‘Dismal’; House Panel Warns Federal Data Is Vulnerable to Hackers,” *The Washington Post* (September 12, 2000).

II. Department of Commerce

[The] Department of Commerce is faced with a number of problems, and difficult issues, including some that we view as major management challenges. We believe that, by addressing these challenges, the Department and the Congress can enhance program effectiveness, eliminate serious operational problems, decrease vulnerability to fraud, waste, and achieve substantial savings.

**Johnnie E. Frazier
Inspector General
United States Department of Commerce¹**

The Department of Commerce is composed of nine distinct administrations, offices, and agencies, whose programs and activities include supporting export policy; administering the nation's export control system; forecasting the weather; providing assistance to distressed communities; fostering telecommunications policies; protecting patents, trademarks, and intellectual property rights; and conducting the decennial census. Due to this wide range of responsibilities, GAO recently stated that the Department "has come to symbolize dispersed responsibility for federal programs," despite the government's increased focus on results and responsibility.²

The Department of Commerce faces a number of systemic management problems. In January, GAO updated its High-Risk list. These are the areas of the federal government that are particularly susceptible to fraud, waste, abuse, or mismanagement. Two of the areas on the list apply to the Department of Commerce: strategic human capital management and information security. For example, GAO recently reported that "the ability of Commerce and two other trade agencies to monitor and enforce trade agreements was limited because the agencies lacked sufficient numbers of experienced staff with the right expertise. . . ."³

On December 1, 2000, Johnnie E. Frazier, the Department's IG, provided Chairman Thompson with an assessment of the most serious management challenges facing the Department. The challenges, which are discussed below, "were chosen because of their importance to the Department's mission or the nation's well-being, complexity, sizable expenditures, or need for

¹ Department of Commerce, Office of Inspector General, "Top Ten Management Challenges for the Department of Commerce" (December 1, 2000).

² General Accounting Office, "Major Management Challenges and Risks: Department of Commerce," Performance and Accountability Series, GAO-01-243 (January 2001), p. 15.

³ *Ibid.*, p. 7.

significant management improvements:⁴

- The Decennial Census;
- Financial management system;
- Information security;
- U.S. Patent and Trademark Office's transition to a performance-based organization;
- The National Technical Information Service;
- Fishery management; and
- Acquisition reform initiatives.

In addition to these systemic problems, other studies have identified cases of either criminal or inappropriate behavior on the part of individuals.

- In August 2000, a security official in charge of investigating the private backgrounds of Department employees, was suspended for downloading and storing a “monolithic” stash of pornographic files on his government computer and on the Department’s Intranet, posing a security risk for the entire system. In the past, several female employees had filed sexual harassment complaints against him, but the complaints were allegedly “overlooked” by the director of the security office.⁵
- In July 2000, a secretary at the Census Bureau was convicted of theft of government property after an investigation revealed she had used a government purchase card to buy more than \$800 worth of clothing, jewelry, electronic equipment, and other items for her personal use.⁶
- An employee resigned from the Department in the face of his proposed demotion for use of a government vehicle for personal use on “a regular and recurring basis.”⁷
- A former secretary agreed to settle charges that she had used a government credit card to make more than \$4,300 of personal purchases.⁸

⁴ Department of Commerce, Office of Inspector General, “Top Ten Management Challenges for the Department of Commerce” (December 1, 2000).

⁵ Paul Sperry, “Cyberporn Scandal Hits Commerce Department,” *WorldNetDaily* (September 27, 2000).

⁶ Department of Commerce, Office of Inspector General, “Semiannual Report to the Congress” (September 30, 2000), p. 46.

⁷ *Ibid.*, p. 56.

⁸ *Ibid.*

The Decennial Census

The IG recently identified several problems that need to be addressed in completing the fiscal year 2000 census and beginning to plan for the 2010 census. An evaluation found that the address list used to support the Census Bureau's operations in 2000 was not completed in time to ensure high-quality address data for labeling questionnaires. The Bureau also needs to increase data quality and improve its software engineering standards in the future. Previous reviews found that too little time was allowed for enumerator training, late delivery of supplies caused problems, some homeless shelters and soup kitchens were not visited by enumerators, and the effectiveness of the assistance centers varied.

- An investigation into allegations of census fraud revealed that (1) at one office, some enumerators had not made the required number of visits and telephone calls to households, (2) at another, some crew leaders had not adequately reviewed questionnaires, and (3) at the third, quality control procedures were not functioning properly.⁹

Financial Management

Despite the absence of a single integrated financial management system, the Department received an unqualified (clean) opinion on its FY 2000 consolidated financial statements. Although the Department's Chief Financial Officer and other senior financial managers have made substantial improvements in financial management, continued emphasis on further improvements is essential in order for the Department to correct the weaknesses and deficiencies that were identified.

- The Department's fiscal year 2000 consolidated financial statements identified 13 material weakness and reportable conditions, and several instances where the Department was not complying with existing laws and regulations.¹⁰

Despite the obvious advantages to unified processes, the Department has had an extremely difficult time developing and implementing a single integrated financial system. For more than 10 years, Commerce's lack of such a system has been identified as a significant internal control weakness. To address this weakness, Commerce began planning for the acquisition and development of a Department-wide financial system in 1992. Despite large investments of time and money, implementation of the system, known as the Commerce Administrative Management

⁹ Department of Commerce, Office of Inspector General, "Top Ten Management Challenges for the Department of Commerce" (December 1, 2000).

¹⁰ Department of Commerce, Office of Inspector General, Memorandum to the Secretary of Commerce (March 1, 2001). (Material weaknesses are serious flaws in the design or operation of an internal control component that increase the risk that errors, fraud, or noncompliance in material amounts may occur and not be readily detected.)

System, has progressed slowly. In 1997, the Department added contractor support to augment the work of the original contractor. The Department also conducted a review of the system to address concerns about costs incurred and schedule delays. In 1998, based on the results of the review, the Department modified the system and drastically revised its implementation strategy. The revised strategy calls for pilot implementation and testing of the redefined system at the Census Bureau before implementing it at other bureaus. It is not expected that the Department will have the system fully operational before fiscal year 2004.

- According to former Secretaries of the Department of Commerce, “Many of the Department’s financial systems are seriously outdated and fragmented; they are unable to provide timely, complete and reliable financial information; they are inadequately controlled; and they are costly and difficult to maintain. The financial systems, taken as a whole, are not compliant with GAO principles and standards, nor with requirements of [various laws and programs] or the [Office of Management and Budget].”¹¹

Information Security

The number of attacks on our nation’s computer systems has grown dramatically over the last few years and is projected to grow at an even faster rate in the future. The computer systems that support Commerce’s operations are increasingly vulnerable, creating a need to improve procedural and technical security measures.

A Presidential directive, issued in May 1998, called for the Department to protect its assets against physical and cyber-based attacks. In reviewing the Department’s progress, the IG identified several problems including the following: several elements of the plan are outdated or missing; milestones have slipped; and the inventory of critical assets is not current.¹²

U.S. Patent and Trademark Office’s Transition To a Performance-Based Organization

The American Inventors Protection Act of 1999 reorganized the U.S. Patent and Trademark Office as a performance-based organization, so that it could be run more like a business. As such, it would have greater authority and responsibility for decisions regarding the management and administration of its operations, while exercising greater control of its expenditures, personnel decisions and processes, and procurement operations. Despite these potential benefits, the transition process is formidable. The Office must formulate the necessary personnel, procurement, and administrative policies. At the same time, however, it has the challenge of responding to the increase in patent and trademark filings and appeals.

¹¹ Department of Commerce, Office of Inspector General, “Top Ten Management Challenges for the Department of Commerce” (December 1, 2000).

¹² Department of Commerce, Office of Inspector General, “Semiannual Report to the Congress” (September 30, 2000), p. 75.

Last year, the IG conducted an audit of the U.S. Patent and Trademark Office’s hiring practices and determined that the Office needed to improve its operations in order to avoid security leaks:

- As of May 2000, the Department’s Patent and Trademark Office had failed to request required background checks on 113 employees hired since October 1997, all of whom had access to sensitive proprietary business data.¹³ For 1,626 employees hired since 1970, there was no documentation of such investigations in the Office’s Security Database.¹⁴
- As of September 2000, almost 50,000 forms documenting personnel actions remained unfiled in the Office of Human Resources. The Inspector General also found that 10 percent of employee records were missing.¹⁵

The National Technical Information Service

Disappointing operating results continue to call into question the National Technical Information Service’s ability to be self-sustaining. While drastic cost-cutting measures may resolve its problems in the short-run, they cannot help the agency solve its major problem—a steady decline in the sales of its products and services caused by fundamental changes in the marketplace. The Department developed a proposal that would close the Service and transfer its scientific, technical, business, and engineering publications to the Library of Congress to ensure permanent public access to such documents. Because of congressional concerns, the closure was delayed pending the outcome of a GAO review of the service’s functions and a comprehensive study of overall U.S. government public information dissemination. The Department needs to work closely with the Congress and other stakeholders to reach agreement on the future of the Service.¹⁶

Fishery Management

Ensuring healthy stocks of fish and other marine animals in the coastal waters beyond each state’s jurisdiction is a federal responsibility carried out principally by the Commerce Department’s National Marine Fisheries Service and eight regional fishery management councils. The Service and the councils track the condition of fish and other marine species, determine the levels of catch that will provide the greatest benefit to the nation, and measure the economic impacts of fishery regulations and policies. Measures to manage various species are generally

¹³ Department of Commerce, Office of Inspector General, “Patent and Trademark Office: Improved Internal Controls Needed for Office of Human Resources,” BTD-12830 (September 2000), p. 1, 4.

¹⁴ *Ibid.*, p. 2.

¹⁵ *Ibid.*, p. 5-6.

¹⁶ Department of Commerce, Office of Inspector General, “Top Ten Management Challenges for the Department of Commerce” (December 1, 2000).

developed by the councils, subject to review by the Service and approval by the Secretary of Commerce. These measures are often controversial because they impose fish quotas that affect both the survival of a species and the economic health of the fishing industry and many coastal communities. A recent GAO report concluded that, while progress is being made in several areas, the Service needs to improve its data collection efforts, improve communications between the government and the fishing industry, improve economic analysis, and identify the costs of achieving compliance with the act's fish habitat provisions.¹⁷

Acquisition Reform Initiatives

The Department is increasingly relying on contractors to provide the goods and services essential to its operations. The Department spends more than \$1 billion each year, about one-quarter of its annual appropriations, through large contracts and simplified acquisitions. The purpose of acquisition reform and its streamlining initiatives is to reduce the time and money spent in acquiring needed goods and services by relying on the competitive marketplace.

GAO recently reported some concerns about the implementation of acquisition reform. Specifically, GAO reported problems in the use of government-wide agency contracts, finding that agencies have employed various tactics to avoid holding required vendor competitions, essentially making sole source awards. In addition, agencies have exhibited a tendency to make awards to large businesses, thereby reducing the number of awards to small and disadvantaged businesses. As a recent IG report indicates, several key problems regarding:

- Commerce acquisitions have been identified, including “improper use of task order contracts, inadequate documentation of market surveys, insufficient planning for contract administration and monitoring, and the administration of the purchase card program.”¹⁸

¹⁷ *Ibid.*

¹⁸ *Ibid.*

III. Department of Defense

The effectiveness of U.S. forces is well evidenced by experiences in the Persian Gulf, Bosnia, and Kosovo. However, the same level of excellence is not evident in many of the business processes that are critical to achieving the Department's mission in a reasonably economical, efficient, and effective manner.

David M. Walker
Comptroller General of the United States¹

The need for the Defense Department to fix the way it manages its service and support infrastructure has never been more acute.

Thomas G. McInerney, Lieutenant General, USAF (Ret.)
President and CEO
Business Executives for National Security²

The Department of Defense is the primary agency responsible for maintaining the national security of the United States. Safeguarding the nation's security is the first and most important duty of the federal government. When this security is threatened, other issues become secondary. Encompassing the Army, Navy, Air Force, and Marine Corps, the Defense Department is the nation's largest employer, with 1.4 million men and women on active duty, 700,000 civilians, and another 1.28 million volunteers serving in the Guard and Reserve. The Department also supports 1.8 million retirees and families that are receiving benefits. In 1999, the Department purchased about \$140 billion in goods and services through 14.8 million purchases.

Being such a large and complex organization, the Defense Department is bound to have management problems. However, the issues confronting the Department are worse than they have to be. Wasteful spending and mismanagement sap the readiness of the armed forces and weaken national security. GAO, the Pentagon's own IG, and other watchdog groups have found flagrant and continuing examples of waste, fraud, and abuse in the Department. These failures divert funds from vital defense programs. Among the problems the IG and GAO listed as the worst included:

- Financial management;
- Computer technology;
- Computer security;

¹General Accounting Office, "Major Management Challenges and Program Risks: Department of Defense," GAO-01-244 (January 2001), p. 6.

²Thomas G. McInerney, Lieutenant General, USAF (Ret.), President and CEO, Business Executives for National Security, Statement before the National Defense Panel of the Quadrennial Defense Review (April 29, 1997).

- Personnel management; and
- Acquisition management.

Financial Management

According to the IG at the Department of Defense, “Despite the massive audit effort, the Department of Defense could not overcome the fundamental inadequacy of its financial reporting systems and produce reliable data through the patchwork of processes needed to compile financial statements.”³ Comptroller General David Walker agrees: “The Department continues to confront pervasive and complex financial management problems that can seriously diminish the efficiency of the military services’ support operations.”⁴

This means the Defense Department just can’t get its books to add up. Each year the Department tries to “balance its checkbook,” but can’t do it. Throughout the year, the Defense Department is operating without information on the cost of its operations, where its money is going, or what is happening to the supplies it buys. This is no way to run the world’s most sophisticated military.

The Defense Department’s poor financial management affects every aspect of its operations. In very cold language, the IG details the problems:

*We identified deficiencies in internal controls and accounting systems related to General Property, Plant, and Equipment; Inventory; Environmental Liabilities; Military Retirement Health Benefits Liability; and material lines within the Statement of Budgetary Resources. We identified \$1.1 trillion in department-level accounting entries to financial data used to prepare DOD component financial statements that were not supported by adequate audit trails or by sufficient evidence to determine their validity.*⁵

There is no major component of the Defense Department that can balance its books. This causes some of the most incredible examples of waste, fraud, and abuse in government. For example:

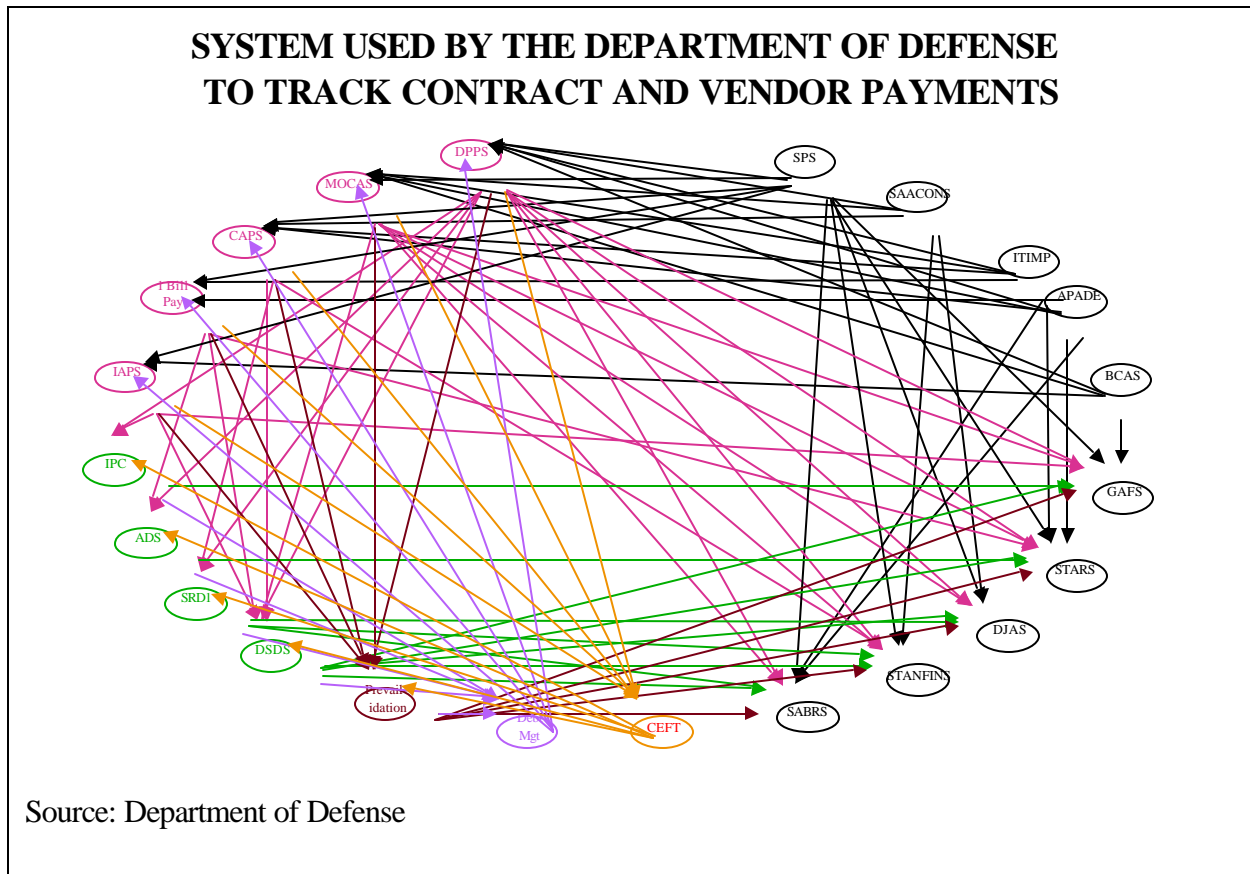
- In fiscal year 2000, the Department made \$4.4 billion in “problem disbursements” or “in-transit disbursements.” These include payments made that do not have a corresponding bill or “obligation.” They can also include payments that were made, but that the entity to whom payment was made did not receive it. As one can imagine, these payments are highly susceptible to fraud or error. The reason for many of these problems is the

³Department of Defense, Office of Inspector General, “Semiannual Report to the Congress” (September 30, 2000), p. i.

⁴General Accounting Office, “Major Management Challenges and Program Risks: Department of Defense,” GAO-01-244 (January 2001).

⁵Department of Defense, Office of Inspector General, “Internal Controls and Compliance With Laws and Regulations for the DoD Agency-Wide Financial Statements for FY 2000,” D-2001-070 (February 28, 2001).

complex contract payment process, which is pictured below:



- Management of its inventory has been a traditional problem for the Department of Defense. Because the Department doesn't maintain adequate records of its current inventory, it often purchases much more than it actually needs. A recent GAO report stated that "available logistics and accounting records indicated that the Army could not account for about \$900 million in shipped inventory."⁶ In one particularly outrageous example of mismanagement, the Department spent \$41.3 million on a system to track its ammunition. Unfortunately, according to the IG, after 8 years of work, "the DoD did not produce a working system or even have one near completion."⁷

⁶General Accounting Office, "Defense Inventory: Army Needs to Strengthen and Follow Procedures to Control Shipped Items," NSIAD-00-10 (June 23, 2000).

⁷Department of Defense, Office of Inspector General, "Development and Implementation of a Joint Ammunition System," D-2001-014 (December 6, 2000).

Poor Management of Computer Technology

The Department of Defense's operations rely on a massive system of 10,000 computer networks and 2.5 million computers. The Department has an annual budget of about \$20 billion just for computers and computer technology. According to the IG, however, "virtually every information technology project that we audit exhibits significant management problems. Those flaws include poorly defined requirements and frequent user dissatisfaction."⁸ Likewise, the GAO reported that "in a comprehensive review of [the Department's] \$18 billion efforts to replace functionally duplicative and inefficient automated information systems with the best existing systems, we found that Defense consistently failed to adhere to sound . . . decision-making and oversight processes."⁹

In a recent report, the Chairman of the Senate Governmental Affairs Committee wrote that most federal agencies were not complying with the computer management requirements put in place by the Congress. Because of these weaknesses, the IG at the Defense Department reports that a number of major technology projects administered by the Department are at risk of failure. These include:

- **The Defense Joint Accounting System.** While originally designed to unify the accounting systems of disparate entities within the Department of Defense, several Defense organizations, namely the Navy and the Air Force, were allowed to opt out of it. Nonetheless, the Department continued with the more than \$700 million project (originally projected to cost \$500 million), despite the fact that its projected savings decreased dramatically. According to the IG, "These cost increases, combined with a decreasing return on investment, represent an increased risk that the system may not be the most cost-effective alternative to perform [the Department of Defense's] general fund accounting."¹⁰
- **The Defense Security Service Case Control Management System.** This system would track the myriad security investigations conducted by the Department and was expected to reduce processing time for all cases. After more than \$76 million was spent on the project, the IG reports that the system "did not meet performance expectations" and that "times for investigations were not reduced."¹¹

⁸Robert J. Lieberman, Deputy Inspector General, Department of Defense, Statement before the Subcommittee on National Security, Veterans Affairs and International Relations, House Committee on Government Reform, D-2001-083 (March 15, 2001).

⁹General Accounting Office, "Defense Information Management: Continuing Implementation Challenges Highlight the Need for Improvement," T-AIMD-99-93 (February 25, 1999).

¹⁰Department of Defense, Office of Inspector General, "Acquisition of the Defense Joint Accounting System," D-2000-151 (June 16, 2000).

¹¹Department of Defense, Office of Inspector General, "Program Management of the Defense Security Service Case Control Management System," D-2001-019 (December 15, 2000).

- **The Defense Environmental Security Corporate Information Management Program.** This system would have provided better coordination of the Defense Department’s environmental mission. However, after expenditures of over \$100 million and 9 years of work, the project could not demonstrate success, and the IG recommended scrapping it.¹²

Computer Security

As mentioned, the Defense Department’s procurement of information technology is beset by delays, cost overruns, and, because of poor planning, ineffective implementation. Once implemented, however, many of the systems are vulnerable to lapses in security. The IG has identified an increasing threat of attacks on Defense Department computers, poor security clearance procedures, and the lack of a consistent policy on technology protection, and says: “The most formidable of known challenges in the area of information technology relate to ensuring the security of networked systems and overcoming a legacy of overly decentralized and poorly controlled information systems management.” GAO shares the IG’s concerns about computer security at the Department of Defense. In its recent “Performance and Accountability Series,” GAO wrote:

*[S]erious weaknesses in [Defense Department] information security provided hackers and hundreds of thousands of unauthorized users the opportunity to modify, steal, inappropriately disclose, and destroy sensitive [Defense Department] data. These weaknesses impair [the Department’s] ability to (1) control physical and electronic access to its systems and data; (2) ensure that software running on its systems is properly authorized, tested, and functioning as intended; (3) limit employees’ ability to perform incompatible functions; and (4) resume operations in the event of a disaster.*¹³

Some of the more sensitive investigations of Defense Department vulnerabilities with respect to its systems are classified and can not be discussed here. However, what is public is still disturbing.

- According to GAO, the Military Retirement Trust Fund suffers from such a lack of overall security that it is vulnerable to unauthorized access to Fund data files and other files storing sensitive information, such as social security numbers, pay rates, child and spousal abuse allegations, and medical test results.¹⁴

¹²Department of Defense, Office of Inspector General, “Defense Environmental Security Corporate Information Management Program,” D-2001-015 (December 7, 2000).

¹³General Accounting Office, “Major Management Challenges and Program Risks: Department of Defense,” GAO-01-244 (January 2001).

¹⁴General Accounting Office, “DOD Information Security: Serious Weaknesses Continue To Place Defense Operations at Risk,” AIMD-99-107 (August 26, 1999).

- Two cases in which employees embezzled nearly \$1 million led GAO to review the Air Force’s vendor payment system. GAO identified a number of security weaknesses, which leave the Air Force vulnerable to similar thefts.¹⁵
- GAO, in an audit of the Defense Department’s computer security procedures, discovered that many individuals could make “unauthorized changes to programs and data while using their security privileges to disable the system’s capability to create an audit trail of those changes.” Thus the individuals could, for example, “modify payroll records or shipping records to generate unauthorized payments or to misdirect inventory shipments and suppress the related system audit data to avoid detection.”¹⁶
- The Defense Department IG identified major security weaknesses in the Joint Military Pay System. According to the IG, weaknesses don’t allow the Department to limit access to the system or monitor use of the system’s software. These weaknesses allowed 20,000 security violations to go uninvestigated.¹⁷
- In an investigation of computer security at the Corps of Engineers, “GAO found pervasive weaknesses in Corps computer controls at its data processing centers and other Corps sites revealed serious vulnerabilities that would allow both hackers and numerous legitimate users with valid access privileges to improperly modify, inappropriately disclose, or destroy sensitive and financial data, including Privacy Act data such as social security numbers and other personal information among others.”¹⁸

Clearly, information security will remain a challenge for the Defense Department for the foreseeable future. With an increasing reliance on computers and computer technology, problems will continue to grow. In fact, according to some officials, attacks on Defense Department systems exceeded 20,000 in 1999 alone. The Department will have to ensure vigilance in protecting its infrastructure from attack.

Poor Management of Personnel

Greater focus is being put on the federal government’s problems in hiring and retaining the right people to accomplish its mission, largely because the federal government is facing a personnel crisis. The Defense Department is no exception. In its recent Performance and Accountability

¹⁵*Ibid.*

¹⁶*Ibid.*

¹⁷Department of Defense, Office of Inspector General, “Internal Controls and Compliance With Laws and Regulations for the DoD Agency-Wide Financial Statements for FY 2000,” D-2001-070, (February 28, 2001).

¹⁸General Accounting Office, “Financial Management: Significant Weaknesses in Corps of Engineers’ Computer Controls,” GAO-01-89 (October 11, 2000).

Series, GAO wrote:

*The Department is dealing with military personnel issues such as shortages of junior officers for the career force, problems in retaining certain skills (such as intelligence analysts, computer programmers, and pilots), and the military services' failure to meet recruiting goals. The Department also faces significant challenges in managing its civilian workforce. For example, the sizable reduction in civilian personnel since the end of the Cold War has led to an imbalance in age, skills, and experience that is jeopardizing certain acquisition and logistics capabilities within the Department.*¹⁹

In a December 2000 letter to the Governmental Affairs Committee, the Defense Department IG described the human capital crisis at the Department in detail. Among the problems described by the IG were:

- **Downsizing.** “The deep cuts in both the military force structure and the civilian workforce after the end of the Cold War were not accompanied by proportionate reductions in the numbers of military force deployments or in civilian workload. On the contrary, military operating tempo [number of missions] has been very high and there have been indications of morale problems among both military and civilian personnel.”²⁰
- **Retirements.** “The current DoD civilian workforce is largely composed of ‘baby boomers’ and the average age in many organizations is nearly 50. The [Defense Department] must replace the bulk of its management as they retire over the next five years. There are serious questions about the availability of enough sufficiently trained and talented individuals to fill the likely management vacancies occurring across the spectrum of [Defense Department] organizations.”²¹
- **Skills and Training.** “The pervasiveness of information technology in all facets of [Defense Department] activities and the rapid evolution of business practices necessitate a much more effective and aggressive approach to personnel training, especially for [Defense Department] civilians. It will be a continuing challenge . . . to provide meaningful training in flexible ways that enable individuals to keep up to speed in their professional fields.”²²

The consequences of the Department’s inability to hire and retain the right people are severe.

¹⁹General Accounting Office, “Major Management Challenges and Program Risks: Department of Defense,” GAO-01-244 (January 2001).

²⁰Department of Defense, Office of Inspector General, “Top Ten Management Challenges for the Department of Defense” (December 1, 2000).

²¹*Ibid.*

²²*Ibid.*

The Defense Department IG recently testified that the Department does not have enough people to conduct the hundreds of thousands of investigations required to grant security clearances to those who need them. These investigations are required to ensure that our national security secrets don't get into the wrong hands. According to the IG:

[T]he Department's ability to comply with [f]ederal guidelines on security clearances and to carry out the several hundred thousand investigations needed annually for initial clearances or updates virtually collapsed during the late 1990's. The causes included: an ill-considered 40 percent cut in Defense Security Service staffing, with no proportionate decrease in workload; failure of the information system acquisition project that was supposed to facilitate productivity improvement; poor management oversight; and initial attempts to deal with declining investigative productivity by arbitrarily limiting the number of clearance investigation requests that could be submitted by managers and commanders.²³

Acquisition Management

According to the Defense Department IG: "The scope, complexity, variety, and frequent instability of Defense acquisition programs pose particularly daunting management challenges. No major acquisition cost reduction goals have yet been achieved and the results of most of the specific initiatives are still to be determined, particularly since many have not yet been fully implemented and are in a developmental or pilot demonstration phase."²⁴

Similar problems also affect the more than \$50 billion a year in services for which the Pentagon contracts. Of these procedures, the IG reported: "An extensive audit of 105 contracting actions for professional administrative and management support services showed flaws in all of them; government cost estimates were wrong in 77 percent of the service contract actions; and DOD has not been taking steps critical to ensuring that it is getting the best services at the best prices."²⁵

Specific examples of contracting problems that result from this mismanagement include the following:

- The catalogue price of a set screw bought by the Defense Logistics Agency increased from 5 cents in 1997 to \$17.72 in 1998. Likewise, the catalogue price of a machine bolt increased from 46 cents in 1997 to \$139.83 in 1998, a mere 30,298 percent increase since

²³Statement of Robert J. Lieberman, Deputy Inspector General, Department of Defense, Before the House Subcommittee on National Security, Veterans Affairs and International Relations, on "Defense Security Service: Mission Degradation" (March 2, 2001).

²⁴Department of Defense, Office of Inspector General, "Top Ten Management Challenges for the Department of Defense" (December 1, 2000).

²⁵Department of Defense, Office of Inspector General, "Contracts for Professional, Administrative, and Management Support Services," D-2000-100 (March 10, 2000).

its last purchase in 1976.²⁶

- Waste, fraud, and abuse can mean that not only dollars but the lives of service members are at stake. Last year, the Boeing Company agreed to pay the United States up to \$54 million to settle two lawsuits that allege that the manufacturer placed defective gears in CH-47D “Chinook” helicopters and then sold the aircraft to the Army. The CH-47D is used by the Army to move troops and equipment. One of its gears failed in flight, causing an Army Chinook helicopter to crash and burn while on a mission in Honduras in 1988. Five servicemen aboard were killed. Another craft crashed in January 1991 during Operation Desert Shield in Saudi Arabia and was totally destroyed. Two persons aboard were injured. In another incident at Ft. Meade, Maryland, in June 1993, a Chinook sustained over \$500,000 in damage. The helicopters destroyed in Honduras and Saudi Arabia were valued at more than \$10 million each.²⁷
- The IG reviewed specific contract actions that the Defense Logistics Agency entered into with Hamilton Standard. These “actions” totaled \$19.0 million. According to the IG, the contracts with Hamilton Standard were not the most economical and effective purchasing strategy to obtain spare parts and logistics support:
 - The Defense Logistics Agency customers paid about \$4.9 million, or 38 percent, more than necessary.
 - The government paid \$1.4 million for propeller blade heaters for the C-130 and P3 aircraft. According to the IG, this was between 124 and 148 percent more than a fair and reasonable price for the heaters.
 - Warner Robins Air Force Base, where most of the parts are used, could reduce costs of the parts by at least \$17.1 million for fiscal year 2001 through 2006 by buying reparable parts using a different type of contract.²⁸

²⁶General Accounting Office, “Defense Acquisitions: Price Trends for Defense Logistics Agency’s Weapon System Parts” (November 2000).

²⁷Department of Justice, “Boeing to Pay U.S. for Selling Army Defective Helicopters,” Press Release (August 3, 2000).

²⁸Department of Defense, Office of Inspector General, “Spare Parts and Logistics Support Procured on a Virtual Prime Vendor Contract” (June 14, 2000).

IV. Department of Education

Education is the primary agency responsible for overseeing the more than \$75 billion annual federal investment in support of educational programs for U.S. citizens and eligible non-citizens. The Department is also responsible for collecting about \$175 billion owed by students or their parents. . . . The Department's stewardship over these assets has been under question as the agency has experienced persistent financial management weaknesses. Beginning with its first agencywide audit effort in fiscal year 1995, Education's auditors have each year reported largely the same serious internal control weaknesses, which have affected the Department's ability to provide financial information to decision makers both inside and outside the agency.

U.S. General Accounting Office¹

Americans rank education as a top national priority. The Department of Education is the primary agency responsible for overseeing the investment of the federal government in support of U. S. education. Education provides about 7 percent of the total resources used for elementary and secondary education. State and local agencies are directly responsible for elementary and secondary education, and the Department of Education supports and encourages their efforts. The Department of Education also provides billions of dollars of financial aid for post-secondary education, through a combination of direct loans and guarantees of private sector loans to students and their parents, as well as through grants.

Over the years, GAO and the Education Department's IG have reported on a number of core management weaknesses within the Department that waste billions of taxpayer dollars and limit the Department's ability to serve the American people effectively. The worst of these problems are concentrated in three interrelated areas:

- C Student financial assistance programs;
- C Financial management; and
- C Information technology management.

Each of these problems is discussed in more detail below.

Student financial assistance programs

The Department of Education administers grant and loan programs that help finance the higher education of millions of students. Each year, these student financial aid programs provide more than \$50 billion in federal loans and grants. However, they have not adequately protected the financial interests of the federal government and the American taxpayers.

¹General Accounting Office, "Financial Management: Education Faces Challenges in Achieving Financial Management Reform," GAO/T-AIMD-00-106 (March 1, 2000).

The Education Department's student assistance programs are highly vulnerable to fraud, waste, abuse, and mismanagement. They are one of the 23 items included on GAO's "high-risk list" of the most vulnerable programs and activities throughout the federal government. Student assistance programs were on the first high-risk list in 1990 and have been included in every update since then. These programs suffer losses through intentional fraud and abuse as well as loan defaults.

Fraud and abuse. Both student loan and grant programs are highly vulnerable to fraud and abuse. They have been victimized by educational institutions, banks, scam artists, and dishonest individuals. Indeed, student assistance programs have spawned a cottage industry of criminals who counsel students and their parents on how to obtain loans and grants fraudulently. These people even help their "clients" submit phony tax returns, so that they appear to meet income eligibility requirements. The following are some examples reported by the IG:

- Officials of CORUS Bankshares and CORUS Bank settled a false claims suit by repaying the government nearly \$11.5 million. The case grew out of allegations that CORUS submitted fraudulent insurance claims on guaranteed student loans.
- CSC Credit Services settled a false claims suit for about \$6.5 million. CSC Credit was an Education Department contractor engaged in collecting defaulted student loans. It submitted false claims for payment of commissions and incentive bonuses.
- The owners of Midland Career Institute were convicted of student aid financial fraud and conspiracy. They fraudulently obtained \$2.3 million in Pell grants and federally guaranteed student loans.
- Nine individuals were indicted in Miami, Florida, for false claims and money laundering involving student aid fraud. They recruited "college students" from a population of elderly residents of a senior citizens home. The seniors had participated in some crafts classes, which the defendants fraudulently passed off as qualifying for Pell grants.²

Another notorious case of criminal student aid fraud drew recent publicity when former President Clinton commuted the sentences of the perpetrators. The Education IG described this case as follows in Congressional testimony last year:

In October 1999, four New York men were sentenced for their roles in a Pell grant fraud scheme. The defendants were convicted on a indictment charging conspiracy, program fraud, false statements, wire fraud, mail fraud and tax fraud in connection with postsecondary programs that they falsely claimed to be administering. Judge Barbara Jones noted that the serious and sophisticated long-term fraud committed against the Department warranted substantial periods of incarceration and also ordered the men to make restitution of \$11 million to the Department. Judge Jones stated that the \$11 million loss to the Department's

² Department of Education, Office of Inspector General, "Semiannual Report to the Congress" (September 30, 2000), p. 9-12.

*Pell grant program was a very conservative estimate since it related to losses associated with only one of the fraudulent educational programs administered by the defendants.*³

Student loan defaults. Although the student loan default rate has declined to 6.9 percent in fiscal year 1998, student loan defaults still cost the federal government billions of dollars each year—\$4.3 billion in fiscal year 1999 alone and more than \$28 billion in the last 10 years. Also, GAO has raised some cautions about the decline in student loan default rates. First, GAO suggests that the downward trend may be more attributable to the strong economy of recent years than to management improvements. Therefore, the trend may be reversed if the economy weakens. Second, GAO reports that the calculation method used by the Education Department understates the default rate.⁴

Student loan default losses are made worse by the Department's laxity in forgiving student loan repayment obligations. The magnitude of this problem is unknown. However, since October 1999, the IG has recovered more than \$1 million in restitution for improper student loan discharges. For example:

- C In May 2000, two doctors, also brothers, were convicted of fraud for having their medical student loan obligations of over \$40,000 discharged. They claimed to be disabled, one confined to his home and the other wheelchair-bound. However, IG investigators observed the brothers riding bicycles and swimming at the beach. The investigation revealed they had submitted disability claims that were signed by a non-existent physician and accompanied by letters from a non-existent lawyer.⁵

Clearly, the Department needs to do a better job of protecting the American taxpayers from the types of fraud and error described above. In particular, it needs to implement some specific actions that it has neglected up to now. The IG recommended that the Department develop a method to estimate how much it loses each year in improper payments.⁶ Experience demonstrates that disclosing improper payment levels fixes attention on them and helps spur improvements. Thus far, the Department has failed to act on this recommendation.

Also, the Department has failed to implement a 1998 law intended to allow it to verify with the

³Lorraine Lewis, Inspector General, Department of Education, Statement before the House Budget Committee Task Force on Education (May 24, 2000), p. 3-4.

⁴General Accounting Office, "High-Risk Series: An Update," GAO-01-263 (January 2001), p. 174-175.

⁵Lorraine Lewis, Inspector General, Department of Education, Statement before the House Budget Committee Task Force on Education (May 24, 2000), p. 6.

⁶U.S. Department of Education, Office of Inspector General, "Semiannual Report to Congress" (September 30, 2000), Inspector General's Message to Congress.

Internal Revenue Service income information submitted by student aid applicants. A bureaucratic impasse has developed between Education and IRS over how to implement the law, or even whether the law can be implemented in its present form. The IG lists the need to resolve this impasse as one of the Department's top management challenges.⁷ GAO likewise has stressed the importance of this data verification. Neither the Department nor the academic institutions that check the accuracy of student financial aid applications currently have access to data sources to independently verify most applicants' family income. While Education's verification procedures, such as computer checks, can detect mistakes on applications, they cannot identify students who intentionally under-report family income.⁸

Financial management

The vulnerabilities of the student assistance programs to fraud and abuse stem primarily from the Department's financial management weaknesses. The Department lacks the financial information systems and accounting controls needed to manage these programs effectively and to maintain the integrity of their operations. Both GAO and the IG have reported year after year on largely the same financial management problems. The Department continues to face serious financial management problems that hinder its ability to (1) obtain timely and complete financial information; (2) decrease vulnerability to fraud, waste, and mismanagement; (3) ensure adequate accountability to taxpayers; (4) manage for results; and (5) help decision-makers make timely and informed judgements.

With the exception of fiscal year 1997, the Department of Education has not received an unqualified or "clean" opinion on its financial statements since its first agency-wide audit. That means it can't even balance its books once a year. Needless to say, it can't manage its money on a day-to-day basis either. According to GAO, these financial management weaknesses make the student financial aid programs increasingly vulnerable to fraud, waste, and mismanagement.⁹ The IG has found many cases that prove this point. For example:

- C In October 1999, the Department's systems generated several duplicate payments. One was a \$19 million double payment of grant funds. The other involved \$125 million in duplicate payments to about 48 grantees. In December 1999, the Department made about \$ 664,000 in duplicate payments to 51 schools, and another \$6 million double payment to

⁷Department of Education, Office of Inspector General, "Top Ten Management Challenges for the Department of Education" (December 8, 2000).

⁸General Accounting Office, "Major Management Challenges and Program Risks: Department of Education," GAO-01-245 (January 2001), p. 18.

⁹General Accounting Office, "Major Management Challenges and Program Risks: Department of Education," GAO-01-245 (January 2001), p. 12-13.

a single school.¹⁰

These errors were eventually identified and corrected, but one wonders how many double payments and similar errors are never caught.

The lack of adequate financial controls also can encourage fraud schemes and other improper actions by the Department's own employees. For example, the IG discovered almost \$1 million was paid in schemes by the same employees:

C Three Department employees used government funds to purchase goods worth over \$300,000 for their personal use. These goods included computers, computer software, cordless telephones, compact disc players, and a 61-inch television. The same employees were also paid about \$634,000 for hours they fraudulently claimed to have worked.¹¹

The results of the Education Department's financial audit for fiscal year 2000 were released in early March 2001. Once again, the Department failed to get a clean opinion. Once again, the auditors identified a number of internal control and accounting glitches by the Department. They included listing \$900 million as an asset instead of a liability and being unable to find \$56 million that was missing from three appropriation accounts.¹²

Poor financial management and the fraud, waste, and abuse it causes impose real burdens on education programs. The IG recently estimated that the Education Department lost at least \$450 million to fraud, waste, and abuse over the last three years.¹³ To put this figure in perspective, \$450 million over three years would (1) pay for 194,721 Pell grants, (2) supply the funds to increase the Charter School Program by almost 80 percent, or (3) more than double the amount of grants to states under the Safe and Drug Free Schools Program.

Information technology management

According to the IG, two of the 10 most serious management problems at the Education Department relate to information technology management.¹⁴ One is the Department's failure to

¹⁰Lorraine Lewis, Inspector General, Department of Education, Statement before the Oversight Subcommittee of the House Committee on Education and the Workforce (September 19, 2000), p. 3.

¹¹*Ibid.*, p. 8.

¹²Department of Education, "Financial Statements Report for Fiscal Year 2000: Ernst & Young Report to the Inspector General on Internal Controls" (January 26, 2001), p. 6, 9.

¹³Michael Fletcher, "Education Audit Finds \$450 Million Misused; Agency's Problems Persist, Panel Told," *The Washington Post* (April 4, 2001).

¹⁴Department of Education, Office of Inspector General, "Top Ten Management Challenges for the Department of Education" (December 8, 2000), Enclosure, p. 2.

comply with the Clinger-Cohen Act of 1996. This law requires agencies to adopt specific practices to improve their management of information technology—including the acquisition, use, and disposal of information technology resources. The Department has yet to fully implement three key requirements of the Act relating to capital planning and investment control process, a sound and integrated information technology architecture, and the information resource management knowledge and skills of agency personnel.

The second problem is computer systems security. In a February 2000 report on security for the Department's 14 mission-critical information technology systems, the IG found significant control weaknesses, including the lack of required security plans, reviews, and awareness training. These weaknesses collectively constitute a significant threat to the security of the Department's information technology systems and the data they contain. The IG found that the Department needs to strengthen controls to enhance overall accountability and security for its Department-wide network called "EDNet." The IG also found that the Department has not taken sufficient actions to implement a Presidential directive on computer security.¹⁵

Computer security is also a government-wide problem on GAO's high-risk list. GAO has reported on specific computer security problems at the Education Department. Specifically, GAO found that "continued weaknesses in information systems controls increase the risk of disruption in services and make Education's loan data vulnerable to unauthorized access, inadvertent or deliberate misuse, fraudulent use, improper disclosure, or destruction, all of which could occur without detection."¹⁶

¹⁵*Ibid.*, Enclosure, p. 2-3.

¹⁶General Accounting Office, "Major Management Challenges and Program Risks: Department of Education," GAO-01-245 (January 2001), p. 15.

V. Department of Energy

For years, we and others have reported on problems with [the Department of Energy's] contract management, which we have defined broadly to include contract administration and project management. These problems have included noncompetitive awards, cost and schedule overruns, inadequate oversight of contractors' activities, an over-reliance on cost-reimbursement contracts, and an inability to hold contractors accountable.¹

Over the past several years, GAO, Congressional Committees, and others have questioned [the Department's] management practices and effectiveness in carrying out its missions. . . .²

U.S. General Accounting Office

The Department of Energy is responsible for maintaining the safety and reliability of the nation's nuclear weapons capabilities, cleaning up the contamination resulting from prior nuclear weapons activities, fostering a reliable and sustainable energy system, and promoting U.S. leadership in science and technology. The Department has more than 50 major facilities in 35 states. It contracts for the management and operation of its major facilities—including its national laboratories, nuclear weapons production facilities, and those facilities undergoing environmental cleanup—and has more than 100,000 contractor employees at its facilities.

The Department was created in 1977. In doing so, Congress brought together most of the government's energy programs and defense responsibilities. During the last decade, the Department conducted or commissioned several studies concerning the missions and organization of its national laboratories. According to the GAO, however, “[the Department] has not always implemented reform recommendations and has been slow in acting on others.”³

Others have been even more critical of the Department. On June 14, 1999, a high-level White House panel condemned the Department as a “dysfunctional bureaucracy that has proven it is incapable of reforming itself” and called for the nation's nuclear laboratories to be placed under separate management. The panel, drawn from President Clinton's Foreign Intelligence Advisory Board, was asked to investigate charges that the Department had failed to protect nuclear secrets after the disclosure that Wen Ho Lee was suspected of passing classified information to China. The panel's public report gave only a few examples of security lapses found because of the confidential nature of the investigation:

¹ General Accounting Office, “High-Risk Series: An Update,” GAO-01-263 (January 2001), p. 200.

² General Accounting Office, “Major Management Challenges and Program Risks: Department of Energy,” Performance and Accountability Series, GAO-01-246 (January 2001), p. 6.

³ General Accounting Office, “Major Management Challenges and Program Risks: Department of Energy,” Performance and Accountability Series, GAO/OGC-99-6 (January 1999), p. 1.

- A Department employee was dead for 11 months before department officials noticed that he still had four secret documents signed out.
- An illegal telephone wiretap was discovered at one of the nuclear labs. An employee confessed to installing it but was not prosecuted.
- As of June 1999, foreign citizens, including some from “sensitive” countries, could still connect their computers to the nuclear labs’ unclassified computer networks via telephone, without monitoring by the labs.
- The report also stated: “Organizational disarray, managerial neglect and a culture of arrogance—both at Energy Department headquarters and the labs themselves—conspired to create an espionage scandal waiting to happen.”⁴

In addition to security problems, the Department has a notoriously poor record for managing large, technical projects. In 1996, GAO reported that the Department had begun 80 major projects since the mid-70's. Of those, 15 were completed, but most were finished behind schedule and with cost overruns; 31 projects were terminated prior to completion after spending over \$10 billion; and 34 projects were ongoing, but cost overruns and schedule slippages had occurred on many of the projects.⁵ Since 1996, Department of Energy data indicate that 6 additional projects are experiencing cost overruns and/or schedule slippages.

Weaknesses in human capital have contributed greatly to this problem.

- In 1993, GAO indicated that, “[w]ork force weaknesses, including a shortage of technical and administrative skills and inadequate management support systems, still impede [the Department’s] ability to properly administer contract management changes.”⁶
- In 1997, GAO stated: “DOE’s lack of technical expertise to oversee the design, construction, and operation of its major system acquisitions. . . has been chronicled since DOE’s early years. A 1981 DOE task force and a 1987 report by the National Research Council both noted DOE’s lack of technical capabilities and expertise. A March 1996 report by the Defense Nuclear Facilities Safety Board echoed those same concerns. Throughout a series of management reviews of DOE that began in 1991, many DOE managers told us that the lack of skilled staff in program, project, and contracting oversight positions is one of the most fundamental problems in the Department.”⁷

⁴ Doyle McManus and Bob Drogrin, “Nuclear Security Panel Assails Energy Department,” *Los Angeles Times* (June 15, 1999), p. A1.

⁵ General Accounting Office, “Department of Energy: Opportunity to Improve Management of Major System Acquisitions,” GAO/RCED-97-17 (November 1996).

⁶ General Accounting Office, “Department of Energy: Management Problems Require a Long-Term Commitment to Change,” GAO/RCED-93-72 (August 1993), p. 5.

⁷ General Accounting Office, “Department of Energy: Improving Management of Major System Acquisitions,” GAO/T-RCED-97-92 (March 6, 1997), p. 5.

- In 1998, GAO reported: “[The Department] has had difficulty managing other large projects. Our past reviews have shown a consistent pattern of poor management and oversight by [the Department of Energy].”⁸
- In 1999, GAO stated: “[I]nadequate technical and managerial skills have resulted in higher costs and delays. For example, according to [the Department], the Defense Waste Processing Facility in South Carolina cost about \$900 million more than planned and opened about 6 years late, in large part because the project’s managers lacked experience with large-scale technology projects and did not focus sufficient attention on technical, institutional, or management issues.”⁹
- In 2000, GAO reported: “[The Department] acknowledges that its managers in headquarters and at the Laboratory site office did not properly oversee [the National Ignition Facility] and, as a result, remained unaware of major cost and schedule problems until several months after Laboratory managers had first documented them.”¹⁰

In addition, on November 28, 2000, Gregory Friedman, the Department’s IG, provided Chairman Thompson with an assessment of the most serious management challenges facing the Department. The IG is responsible for identifying fraud, waste, abuse, and inefficiency within the agency. According to Mr. Friedman, the challenges, which are discussed below, “warrant increased emphasis or appear to have reached a heightened level of urgency”:¹¹

- The National Nuclear Security Administration;
- Contract administration;
- Environmental remediation (including radioactive waste storage);
- Human capital;
- Information technology;
- Infrastructure;
- Property controls and asset inventories;
- Safety and health; and
- Security.

The National Nuclear Security Administration

⁸ General Accounting Office, “Nuclear Waste: Department of Energy’s Hanford Tank Waste Project—Schedule, Cost, and Management Issues,” GAO/RCED-99-13 (October 1998), p. 18.

⁹ General Accounting Office, “Major Management Challenges and Program Risks: Department of Energy,” GAO/OCG-99-6 (January 1999), p. 15.

¹⁰ General Accounting Office, “National Ignition Facility: Management and Oversight Failures Caused Major Cost Overruns and Schedule Delays,” GAO/RCED-00-271 (August 2000), p. 16.

¹¹ Department of Energy, Office of Inspector General, “Top Ten Management Challenges for the Department of Energy” (November 28, 2000).

The National Nuclear Security Administration was established in March 2000 as a semi-autonomous agency within the Department to administer its national security functions. It is intended to provide clear and direct lines of accountability and responsibility for the management and operation of the nation's nuclear weapons, naval reactors, and nuclear nonproliferation activities. As with the establishment of any new enterprise, the administration faces a number of challenges. Logistical and organizational issues must be resolved; expectations, responsibilities, and authorities must be established; and human capital issues must be addressed. Further, the agency has a number of major policy issues it must address. Many of those issues—notably contract administration, security, infrastructure, and information technology—represent management challenges to the agency, as well as to the Department.

Contract Administration

In a 1999 report, the Department stated that it had reformed its contracting practices, which had been largely unchanged for more than 50 years. However, based on observations and reviews conducted since 1994, the IG concluded that many of the Department's contract reform goals have yet to be achieved. For example, while incentives have been included in most contracts, reviews have disclosed systemic weaknesses in the way these incentives have been administered. Ongoing reviews have disclosed continuing problems associated with performance-based incentives and fees for contractors at major Department facilities. Since \$13 billion of the budget of the Department is spent by its major contractors, improvements in contracting practices represent one of the greatest opportunities for enhancing the economy and efficiency of operations. Within the last year, the IG disclosed several instances where certain contracting practices were not in the government's best interests:

- The University of California used \$24,000 in contract funds to conduct a poll to “gauge public awareness and impressions” of Lawrence Livermore National Laboratory concerning unfavorable press coverage.¹²
- Only one of the four contractors audited by the IG had properly determined whether it would be better for the Department to make or buy certain items. Had the determinations been made for all four cases, the Department could have saved over \$5 million. According to the IG, “[s]ubstantial additional savings are possible if the make-or-buy concept is fully adopted at all Department sites.” Unfortunately, these determinations are not being made because the Department's procurement officials have not adequately monitored contractor implementation of the program.¹³
- The Department's Richland Operations Office allowed the contractors to use an off-site laboratory to analyze groundwater samples rather than directing them to use a less expensive on-site laboratory with the same testing capability. As a result, Richland

¹² Department of Energy, Office of Inspector General, “Semiannual Report to the Congress” (September 30, 2000), p. 29.

¹³ Department of Energy, Office of Inspector General, “Semiannual Report to the Congress,” (March 31, 2000), p. 19.

incurred unnecessary costs of approximately \$550,000.¹⁴

In 1994, the Department replaced its standard management and operating contract with a new performance-based contract. The new contract included incentives to improve performance and/or reduce costs. An audit of 13 programs at the Idaho Engineering and Environmental Laboratory revealed that contractors were getting paid for improved performance even though performance was not actually improving:

For some incentives, performance declined or was unchanged. For others, performance improved but the improvement was overstated, was compensated twice, could not be directly linked to actions taken by [the contractor] during the incentive period, or carried a disproportionately high fee. For still others, [the contractor] could not demonstrate any reduction in costs.¹⁵

Environmental Remediation (including Radioactive Waste Storage)

The Department's effort to address the environmental consequences of its nuclear weapons mission has been recognized as the largest remediation program of its kind ever undertaken. The Department reports that it is responsible for cleaning up 113 geographic sites located in 30 states and one territory. Sites range in size from as small as a football field to larger than the state of Rhode Island. Cleaning up the entire nuclear weapons legacy will take several decades and, according to the Department's most recent estimate, cost about \$230 billion. The magnitude of the cleanup effort, along with its technical complexities and uncertainties, ensures that it will remain a Departmental challenge for the foreseeable future. While the Department has made progress in defining the cleanup effort, estimating its scope, and prioritizing individual projects, increased management attention is needed to achieve intended environmental cleanup goals.

- The Department currently estimates that it will cost \$47 billion to clean up radioactive waste in tanks at Hanford, Washington. This reflects an increase from an earlier estimate of \$30 to \$38 billion. In 1993 and 2000, the IG studied the management of the clean-up project. Both studies concluded that the project lacks a comprehensive project management plan, even though the Department has already spent \$3.8 billion on the project.¹⁶
- During another audit, the IG found that "ineffective management and insufficient oversight" increased the cost and delayed the schedule for an environmental cleanup. Specifically, the decontamination and decommissioning of three large uranium

¹⁴ *Ibid.*, p. 9.

¹⁵ Department of Energy, Office of Inspector General, "Semiannual Report to the Congress" (September 30, 2000), p. 26.

¹⁶ Department of Energy, Office of Inspector General, "Semiannual Report to the Congress" (March 31, 2000), p. 8.

enrichment buildings at the Department's East Tennessee Technology Park was two years behind schedule and \$94 million over budget.¹⁷

Human Capital

Due to a weakened workforce, the Department faces major problems fulfilling its duties in the near future. Since 1995, the Department has decreased its staff from 13,640 to 10,027 through reductions in force, buyouts, and attrition. During this period, the average age of employees increased from 44 to 48. Fully 34 percent of the staff will be eligible to retire in the next 5 years. Separations exceed hires by almost 3 to 1. Some of the Department's major contractors have experienced similar losses.¹⁸

The Department should develop and implement a plan to preserve the nuclear weapons program knowledge base, including capturing information that could be provided only by retiring weapons experts. The Department has taken steps to "reinvigorate" its knowledge and records management and has developed a comprehensive approach to preserving the nuclear weapons program knowledge base. While it is evident that management recognizes the seriousness of its human capital problem, the need for action to ensure that the Department has the technical, scientific, and management resources it needs to meet its mission requirements has become critical.

The difficulties being experienced at the National Ignition Facility illustrate this problem. The National Ignition Facility is a stadium-sized laser facility that is intended to simulate in a laboratory the conditions created in nuclear explosions. According to GAO, "[contractor] management and Department oversight failures led to major cost overruns and schedule delays in the construction of [this] new state-of-the-art facility."¹⁹ In August 2000, GAO reported that the \$3.5 billion facility would not be completed until 2008—more than \$1 billion and 6 years later than originally estimated. Equally important, they noted that "[neither the Department's] headquarters staff nor field managers had the skills to oversee the management and technical complexities of this large project, and the field staff did not have technical proficiency in laser operations."²⁰

Information Technology

¹⁷ Department of Energy, Office of Inspector General, "Semiannual Report to the Congress" (September 30, 2000), p. 19.

¹⁸ Department of Energy, Office of Inspector General, "Top Ten Management Challenges for the Department of Energy" (November 28, 2000).

¹⁹ General Accounting Office, "Major Management Challenges and Program Risks: Department of Energy," Performance and Accountability Series, GAO-01-246 (January 2001), p. 15.

²⁰ *Ibid.*, p. 19.

Since 1996, ten audit reports have been issued identifying problems associated with the Department's management of \$1.6 billion in annual information technology expenditures. Recent audits indicate that the Department does not have an effective investment strategy for information technology.

- The Department spent at least \$38 million developing duplicative information systems. Also, “[duplicative] systems existed or were under development at virtually all levels within the Department.”²¹
- The Department “failed to take advantage of enterprise-wide software contracts that could have saved nearly \$40 million on just one of its desktop software suites.”²²
- Two contractors, Westinghouse Savannah and the University of California, could not implement integrated business information systems because they did not follow established federal and Departmental guidelines. Westinghouse terminated its project after investing 9 months and \$11.5 million; the University of California terminated its project after spending over 2 years in development and \$3.6 million.²³

Equally important, the Department is using its technology inappropriately. In October 2000, the Department's Ames Laboratory was found to use information-collecting devices called “cookies” on its Web site without informing the public. This practice was in violation of government policy on privacy not only because the cookies were “persistent” cookies, meaning that they could track computer users over time, but also because the Ames Laboratory Web site had failed to post a privacy policy of any kind.²⁴

Infrastructure

The condition of the Department's infrastructure is deteriorating rapidly. Some Stockpile Stewardship Plan milestones and goals have slipped, restoration costs have increased, and future nuclear weapons production work is at risk.

- In September 2000, the IG reported: “[T]he Department planned to dismantle 328 retired weapons at [the] Pantex [Plant] during Fiscal Year 1999. However, only 207 were completed partly due to roof leaks, attributed to delayed repairs and preventive maintenance that resulted in standing water in some Pantex operating bays. The leaking

²¹ Department of Energy, Office of Inspector General, “Top Ten Management Challenges for the Department of Energy” (November 28, 2000).

²² *Ibid.*

²³ Department of Energy, Office of the Inspector General, “Semiannual Report to Congress” (September 30, 2000), p. 32.

²⁴ Senate Governmental Affairs Committee Press Release, “Administration Compromises Citizens' Privacy: Thompson Reveals Agency Policy Violations and Breaches of Computer Security That Leave Citizen Privacy at Risk” (October 20, 2000).

roof caused a dismantlement work stoppage.”²⁵

Furthermore, the Department has not implemented its critical infrastructure protection plan. As a result, the Department faces increased risk of damage to cyber-related critical infrastructure that could adversely impact its ability to protect critical assets and deliver essential services.

Property Controls and Asset Inventories

The Department has extensive inventories of nuclear and non-nuclear materials that may no longer be needed. Not only could the funds spent to store, secure, and handle these materials be put to better use, some of the materials pose potentially serious safety and health problems in their current locations. In March 2000, the Secretary announced an initiative to “clean out the attic” of unneeded and unused property. Since then, Department managers have been working to deploy a number of new processes, including on-line auctions, to deal with this issue. Despite renewed attention to this longstanding problem, the IG has reported significant deficiencies in controls over the disposal or sale of government property:

- Rocky Flats Environmental Technology Site and its contractor “failed to properly dispose of and account for weapons parts.” According to the IG, this occurred because Rocky Flats failed “to require its operating contractor to maintain an accurate inventory or to require screening of parts prior to disposal.”²⁶
- A contractor at the Savannah River Site “failed to comply with Department and Savannah River Site requirements for disposal of surplus computers.” The Savannah River contractor failed to clear stored information, including sensitive unclassified information and Unclassified Controlled Nuclear Information, from surplus computers.²⁷

Safety and Health

Ensuring the safety and health of its workforce and the public is one of the Department’s most difficult long-term challenges. Safety and health issues encompass all activities relating to the identification, testing, handling, labeling, cleanup, storage, and disposal of radioactive and hazardous waste.

The Department has had a troubled history when it comes to this issue. In 1999, for example, GAO stated: “In 1995 . . . a [Department of Energy] advisory committee concluded that the

²⁵ Department of Energy, Office of Inspector General, “Management of the Nuclear Weapons Production Infrastructure,” DOE/IG-0484 (September 2000), p. 4.

²⁶ Department of Energy, Office of Inspector General, “Semiannual Report to the Congress” (September 30, 2000), p. 13.

²⁷ *Ibid.*, p.17.

widespread environmental contamination at [the Department's] facilities and the immense costs associated with their cleanup is evident that self-regulation has failed. In 1998, the Defense Nuclear Facilities Safety Board, an independent group that oversees but has no regulatory authority over [the Department's] defense facilities, criticized the Department for failing to correct worker health and safety hazards."²⁸

There has even been recent criminal misconduct regarding safety and health issues. One of the Department's subcontractors mixed hazardous materials with non-hazardous/non-regulated paint waste material. The subcontractor was sentenced to three years probation and fined for the treatment of hazardous waste without a permit and for transportation of hazardous waste without the required paperwork.²⁹

Security

Recent incidents indicate that security has not been given the necessary priority and attention within the Department and its laboratories. One of the objectives of the Department is ensuring that its nuclear weapons, materials, facilities, and information assets are secure through effective safeguards and security policy, implementation, and oversight. The Department spends over \$1 billion per year for physical and personnel security. In the past, reviews have identified weaknesses in the Department's protection of nuclear weapons-related information. Lapses in security were frequently cited during the debate leading to the creation of the National Nuclear Security Administration. Based on the following examples, improvements in security operations are still needed.

- “Management officials of the Albuquerque Operations Office changed annual security survey ratings for Los Alamos National Laboratory without documented rationale for such changes. Furthermore, Los Alamos National Laboratory personnel believed that they had been pressured by management to change security self-assessments.”³⁰
- Another inspection identified significant problems in the manner in which security plans were reviewed and quality assurance issues were closed. IG reviews have also identified security weaknesses relating to information technology. One audit of six sites disclosed significant weaknesses that increased the risk at all sites that unclassified computer

²⁸ General Accounting Office, “Major Management Challenges and Program Risks: Department of Energy,” Performance and Accountability Series, GAO/OCG 99-6 (January 1999), p. 17.

²⁹ Department of Energy, Office of the Inspector General, “Top Ten Management Challenges for the Department of Energy” (November 28, 2000).

³⁰ Department of Energy, Office of Inspector General, “Semiannual Report to the Congress” (September 30, 2000), p. 18.

networks could be damaged by malicious attack.³¹

³¹ Department of Energy, Office of Inspector General, “Top Ten Management Challenges for the Department of Energy” (November 28, 2000).

VI. Federal Emergency Management Agency

Much work is left to be done to ensure that business is carried out in an economical and efficient manner and appropriate results are achieved.

**George Opfer
Inspector General
Federal Emergency Management Agency ¹**

The Federal Emergency Management Agency is the federal agency charged with responding to national emergencies. It works in partnership with groups such as state and local emergency agencies, fire departments, other federal agencies, the American Red Cross, and other volunteer organizations. It helps to develop disaster mitigation programs, and to meet the needs of people and infrastructure when major disasters occur.

The U.S. Fire Administration and the Federal Insurance Administration are also under its jurisdiction. The Fire Administration supports the nation's fire service and emergency medical service communities with training, public education, and research in fire protection technologies and emergency response procedures. The Federal Insurance Administration makes insurance available to residents and businesses in communities that participate in the national Flood Insurance Program.

The Federal Emergency Management Agency faces a number of systemic and long-standing management problems. On December 1, 2000, IG George J. Opfer provided Chairman Thompson with an assessment of the most serious management challenges facing the agency. The most serious challenges that the IG identified are listed below and discussed in the following sections:

- Financial management;
- Information technology management;
- Grants management;
- Disaster response and recovery;
- National Security Support Program;
- Flood Insurance Program; and
- Mitigation Program.

In addition to these systemic problems, other studies have identified cases of either criminal or inappropriate behavior on the part of individuals.

- A former cabinet member of the Virgin Islands government was convicted of filing false claims for disaster-related expenses. The official hired a contractor without competitive bids to repair the roofs of two different buildings that had been damaged as a result of

¹ Federal Emergency Management Agency, Office of Inspector General, "Top Ten Management Challenges for the Federal Emergency Management Agency" (December 1, 2000).

Hurricane Marilyn. The contractor did not repair either roof, but submitted invoices that the cabinet member certified and approved.²

- A contractor company pleaded guilty to conspiracy to defraud the agency. Specifically, the contractor was submitting fraudulent claims for work following Hurricane Andrew. The fraudulent claims contained false time sheet entries for fictitious employees, false entries for equipment not used as reported and false time sheet entries verifying inflated work hours of employees.³

Financial Management

Much more must be done to ensure that the Federal Emergency Management Agency can produce timely, accurate and relevant financial information to support program management and accountability decisions. The audit of the agency's fiscal year 2000 financial statements again revealed significant deficiencies. To overcome these deficiencies, "employees and contractors had to engage in intensive efforts requiring expensive and time-consuming manual procedures to develop reliable information." The audit continued: "Based on these deficiencies and their impact on the [agency's] ability to generate timely, reliable, and consistent financial information, [the auditors] concluded that the [agency's] financial management system did not substantially comply with [f]ederal . . . requirements."⁴

Information Technology Management

The agency relies heavily on computers and other information technology to accomplish its mission and, like the rest of the government, faces challenges in this area. Last year, a review of federal agency compliance with the Clinger-Cohen Act found that many agencies were not fully complying with the law and therefore, were not conducting cost/benefit analysis before investing in computer systems. Also, most agencies were not managing information technology for performance or results. The agency relies heavily on computers to provide services to disaster victims but seems to be making a halfhearted attempt at complying with this important information technology management law. In fact, the report found that the agency does not have a capital planning and investment process in place as required by the law and therefore is not conducting cost/benefit analysis before investing in computer systems.⁵

² Federal Emergency Management Agency, Office of Inspector General, "Semiannual Report to the Congress" (September 30, 2000), p. 11.

³ *Ibid.*, p. 12.

⁴ Federal Emergency Management Agency, Office of Inspector General, "Auditor's Report on FEMA's Fiscal Year 2000 Financial Statements" (March 1, 2001).

⁵ Investigative Report of Senator Fred Thompson, Chairman of the Committee on Governmental Affairs, United States Senate, "Federal Compliance with the Clinger-Cohen Act" (October 2000).

In addition, recent reports show that the Federal Emergency Management Agency's operations and assets are very vulnerable to computer hackers. For example, a former employee illegally accessed the agency's internal computer system on three separate occasions.⁶ While the government has been taking steps to address the issue, it is not keeping pace with the growing threat. Last Congress, a new law, the Government Information Security Act, was passed as part of the fiscal year 2001 Defense Authorization Act in hope that agencies like FEMA would develop agency-wide computer security programs to protect government computers and the information contained in them. A recent audit found that the agency had not identified all of its critical information-based assets; was significantly behind schedule in conducting tests of how vulnerable these assets are; and did not even know how much it would cost to actually protect these critical assets.

Finally, the Federal Emergency Management Agency is behind schedule on an analysis of its requirements for an improved flood insurance processing system. Consequently, it continues to rely on outdated technology to process and maintain flood insurance policies.⁷

Grants Management

The agency needs to address problems with the money it gives out in the form of grants. When providing disaster assistance grants, it usually awards a single grant to the state emergency office in the state where the disaster occurred. The state emergency office then divides the grant into small pieces and gives it to other state agencies, local governments, and private non-profit organizations. The state emergency office is responsible for awarding, disbursing, and monitoring the disaster assistance funds.

The IG audited 17 state emergency management offices over the last three years to see whether they were properly managing their grants. They identified a number of recurring problems:

- The Maryland Emergency Management Office did not “properly monitor subgrantee activities” or properly close out complete programs.⁸
- The Mississippi Emergency Management Office did not “obtain progress or financial status reports from subgrantees,” “monitor subgrantees’ progress toward project completion in a timely manner,” or have a system in place “to prevent excessive

⁶ Federal Emergency Management Agency, Office of Inspector General, “Semiannual Report to the Congress” (March 31, 2000), p. 16.

⁷ Federal Emergency Management Agency, Office of Inspector General, “Top Ten Management Challenges for the Federal Emergency Management Agency” (December 1, 2000).

⁸ Federal Emergency Management Agency, Office of Inspector General, “Semiannual Report to the Congress” (September 30, 2000), p. 8.

- payments” to certain recipients.⁹
- The Nebraska Emergency Management Agency made “incorrect calculations and payment of administrative allowances to subgrantees” and “reimbursement to a subgrantee for unallowable costs.”¹⁰
 - The Washington State Emergency Management Office failed to recoup and return invalid payments to the Federal Emergency Management Agency.¹¹
 - A disaster claim from the Georgia Board of Regents included “unsupported charges, excess land acquisition and development costs, charges covered by insurance, ineligible project management costs, and unreasonable contract charges.”¹²
 - The Pennsylvania Department of Transportation claimed “specific charges under both large and small projects that were unauthorized, unsupported, allocable to another [f]ederal grant program, excessive, and duplicative in nature.”¹³
 - The North Carolina Department of Transportation claimed “excessive overtime salary and fringe benefit charges, ineligible regular-time salaries, duplicative funding, unsupported costs, and unauthorized work.”¹⁴

Disaster Response and Recovery

The management of the Disaster Response and Recovery Program continues to be one of the Federal Emergency Management Agency’s largest challenges. The number of federally declared disasters continues to increase, making it critical that the agency reduce disaster response and recovery costs, better manage its disaster workforce, ensure the integrity of its many financial assistance programs, and improve program service delivery. It has begun initiatives to address these problems. The effectiveness of the initiatives, however, has yet to be examined.¹⁵

Another area where problems remain is debris removal. The agency needs to improve its controls over the Debris Removal Program to prevent serious fraud, waste, and abuse. If left unchecked, the IG warns that “the abuse within the Debris Removal Program will detract from or

⁹ *Ibid.*, p. 8.

¹⁰ *Ibid.*, p. 9.

¹¹ Federal Emergency Management Agency, Office of Inspector General, “Semiannual Report to the Congress” (March 31, 2000), p. 8.

¹² *Ibid.*

¹³ *Ibid.*

¹⁴ *Ibid.*

¹⁵ Federal Emergency Management Agency, Office of Inspector General, “Top Ten Management Challenges for the Federal Emergency Management Agency” (December 1, 2000). One such initiative being examined involves turning over the management of small disasters to states.

overshadow the improvements that [the agency] has made in its disaster response and recovery programs.”¹⁶

National Security Support Program

In 1995, the agency was assigned the lead federal agency responsibility for developing and maintaining a national strategy to combat domestic terrorism. In May 1999, GAO reported that FEMA’s domestic consequence management exercise program was not well developed.¹⁷ In more recent reports and testimonies, GAO reported that terrorism preparedness training programs are sometimes duplicative and not well coordinated among the various federal agencies with terrorism-preparedness responsibilities. Although the agency has taken steps to begin addressing these issues, its role in terrorism-related preparedness and consequence management needs to be monitored.¹⁸

Flood Insurance Program

The National Flood Insurance Program presents a formidable management challenge for the agency. One of the program’s greatest challenges is financial management. Since 1993, it has incurred operating losses of approximately \$1.56 billion.¹⁹ There are two reasons for this financial instability - 1) it does not collect sufficient premium income to build reserves to meet future flood losses; and 2) the cost to the program for properties destroyed more than once is approximately \$200 million annually. Finally, the program needs to better coordinate and integrate its activities with that of the disaster mitigation activities of the agency.

Mitigation Program

The Federal Emergency Management Agency needs to tackle the inherent problems associated with the Hazard Mitigation Grant Program to ensure that funds are effectively spent and address mitigation priorities. A major component of this program is buyouts. It is important to have regulations and guidance as to how the buyout program is implemented. In June 2000, the IG highlighted significant problems with the manner that the agency implemented the special Hurricane Floyd buyout program. Many of the problems were traced to lack of guidance and delays in conforming to the eligibility criteria specified for this buyout. Given the significant role buyouts have within the program, it is critical that they are effectively executed and address mitigation priorities. In this respect, it is important to address how the mitigation planning

¹⁶ *Ibid.*

¹⁷ *Ibid.*

¹⁸ *Ibid.*

¹⁹ Federal Emergency Management Agency, “The Federal Emergency Management Agency Annual Performance Plan: Fiscal Year 2001” (March 2000), p. 6.

process in the states can be more effectively coupled with developing buyout projects and ensuring mitigation priorities are met and monies are spent in a timely manner.²⁰

Finally, the agency needs to ensure that the modernization of Flood Insurance Rate Maps continues to move ahead in a timely and effective manner. To date, significant progress has not been made in implementing the Map Modernization Plan. The agency has estimated that the modernization program will cost approximately \$750 million. In September 2000, the IG issued a report that concluded that this estimate is unreliable because of the difficulty of predicting several of the key components of cost, as well as the high risk that some of the assumptions that underpin the estimate may be wrong.²¹

²⁰ Federal Emergency Management Agency, Office of Inspector General, “Top Ten Management Challenges for the Federal Emergency Management Agency” (December 1, 2000).

²¹ *Ibid.*

VII. Department of Health And Human Services

The Department of Health and Human Services, with a \$376 billion budget, presents one of the more massive and complex management and program-related challenges in the federal government. The federal health and social programs it oversees tangibly affect the lives and well-being of virtually all Americans and encompass some of the most costly issues facing the nation.

U.S. General Accounting Office ¹

The Department of Health and Human Services has about 59,000 employees and manages over 300 federal programs. Its largest operating component, the Health Care Financing Administration, runs the Medicare program, and partners with the states to administer the Medicaid program. Medicare is the federal government's nationwide health care system for senior citizens and the disabled. Medicaid is a joint state-federal program that provides medical services to qualifying low-income persons.

The GAO and the Department's IG have identified a number of critical management problems at the Department. While these problems hamper many of the Department's hundreds of programs and activities, their greatest impact is on the Medicare program. According to the IG, eight of the Department's 10 most serious problems involve Medicare. Also, Medicare is on GAO's "high-risk list" of those federal programs throughout the government that are most vulnerable to fraud, waste, and mismanagement. Medicare has been on the biennial GAO high-risk list ever since its inception in 1990.

A program as large and complex as Medicare will always be hard to manage and vulnerable to some loss and error. However, the program's intrinsic risks are compounded by the Department's pervasive financial and information technology management weaknesses, as well as its staffing problems. For example, like most federal agencies, the Department suffers from another GAO high-risk problem—failure to adequately protect sensitive computerized information from unauthorized access and misuse. This problem threatens the confidentiality of the massive amounts of medical and other sensitive personal data the Department keeps on millions of our citizens.

The following sections provide more specific information on the Department's core problems:

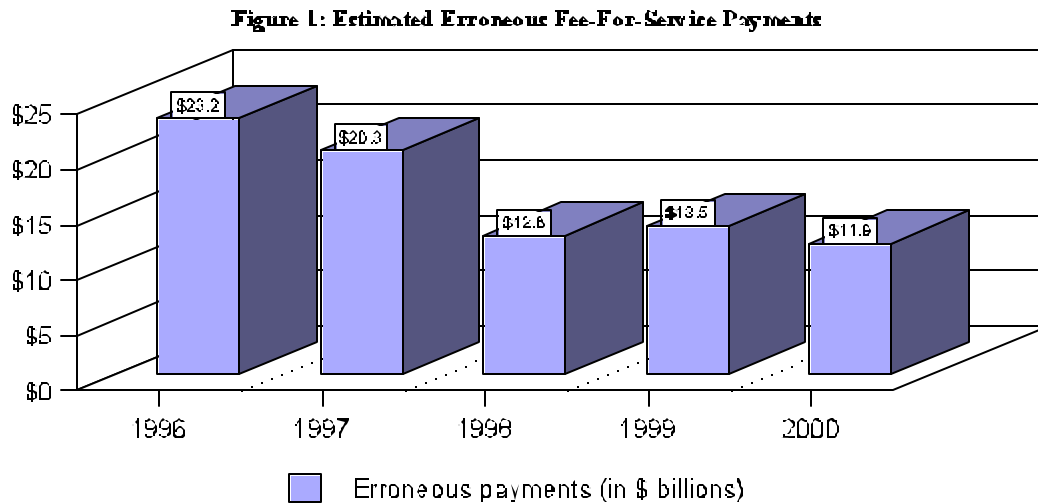
- C Medicare;
- C Medicaid;
- C Financial and information technology management; and
- C Staffing.

¹General Accounting Office, "Major Management Challenges and Program Risks: Department of Health and Human Services," GAO-01-247 (January 2001).

Medicare

The Medicare program covers about 40 million persons age 65 or older, and certain disabled persons. Beneficiaries enroll in either the “fee-for-service” part of Medicare, where they choose their own doctors and other health care providers for covered services that Medicare pays, or in the managed care part of Medicare, called “Medicare+Choice.” The total Medicare budget is more than \$200 billion a year. Most of this budget (about \$174 billion last year) goes to fee-for-service payments. The rest funds Medicare+Choice.

Each year, the Medicare program loses a significant portion of its total budget to erroneous payments. These include payments to people who are not eligible for Medicare, payments for goods or services that are not covered by Medicare, or higher payments than allowed for covered goods or services. For the past 5 years, the Department’s IG has estimated erroneous payments in the fee-for-service part of the program. The following figure shows these estimates:



While estimated errors are decreasing, they still take a heavy toll on the program. The \$11.9 billion lost in 2000 was 6.8 percent of the entire fee-for-service budget for that year. Such losses divert important resources from the Medicare program and its intended beneficiaries. For example, the lost \$11.9 billion would go a long way toward funding the annual cost of a prescription drug benefit under Medicare. Furthermore, the IG estimates don’t even capture the full amount of Medicare’s erroneous payments. They don’t include errors in the Medicare+Choice part of Medicare, nor do they necessarily include fraudulent payments. Therefore, the total annual losses to improper Medicare payments are probably much greater than the IG estimates. According to GAO, “How much greater, no one knows.”²

²General Accounting Office, “Efforts to Measure Medicare Fraud,” GAO/AIMD-00-69R (February 4, 2000).

Erroneous payments affect all aspects of the Medicare program. One particularly serious problem area is mental health services. Reviews by the IG and by the Department itself reveal a pattern of inappropriate claims for mental health services spanning a variety of provider types. For example, IG reviews found the following:

- Over 90 percent of Medicare payments to community mental health centers for partial hospitalization services in five states—\$229 million of \$252 million—were unallowable or highly questionable.³
- An estimated 58 percent—\$224 million of \$382 million—of outpatient psychiatric charges at acute care hospitals in ten states were unallowable or unsupported. At least \$57 million of \$149 million in Medicare payments was unallowable or unsupported for outpatient psychiatric services provided by psychiatric specialty hospitals in ten locations.⁴

Another major problem area is payment for medical equipment and supplies. The Medicare payment process is vulnerable to double-billing, coding errors that result in excessive payments, and outright fraud. For example:

- Inappropriate Medicare reimbursement for orthotics continues at significant levels. The IG found that about two-thirds of sampled claims for orthotic devices were miscoded or lacked adequate documentation. Based on this sample, the IG projected that Medicare overpaid orthotic claims by \$33 million in one year.⁵

Medicare also is plagued by unscrupulous individuals and firms, who deliberately take advantage of the program. The IG reported on the following recoveries from false claims cases:

- A large operator of 36 hospitals in rural areas and small cities paid the government \$31.8 million for submitting false claims through a practice known as “upcoding,” or billing more expensive services than the hospitals actually provided by assigning inappropriate diagnostic codes.⁶
- A New York doctor was imprisoned and fined for submitting over \$8 million in false

³Department of Health and Human Services, Office of Inspector General, “Top Ten Management Challenges for the Department of Health and Human Services” (December 1, 2000).

⁴*Ibid.*

⁵Department of Health and Human Services, Office of Inspector General, “Semiannual Report to the Congress” (September 2000), p. 39-40.

⁶*Ibid.*, p. 11.

claims to Medicare.⁷

- A dialysis services company based in Sweden and two of its Florida subsidiaries repaid the government more than \$53 million for false claims submitted to Medicare and Medicaid. Among other things, the companies double-billed for lab tests and also billed for medically unnecessary tests.⁸

Medicare and Medicaid have even spawned a cottage industry of organized criminals who specialize in defrauding the programs. GAO investigators recently described some of these criminal schemes:

- In the “rent-a-patient” scheme, organizations pay for, or “rent,” individuals to go to medical clinics for unnecessary diagnostic tests and cursory examinations. Licensed physicians sometimes participate in the rent-a-patient scheme. Medicare and Medicaid are billed for those services and for other services or medical equipment that were never provided.
- In the “pill mill” scheme, separate health care providers, usually including a pharmacy, work together to generate a flood of fraudulent claims that Medicare or Medicaid pay. After a prescription is filled, the “beneficiary” sells the medication to pill buyers on the street, who then sell the drugs back to the pharmacy.
- In the “drop box” scheme, a private mailbox facility is used as the fraudulent health care provider’s address, with the provider’s “suite” number actually being its mailbox number. The fraudulent health care provider then uses that address to submit claims and receive payments from Medicare and Medicaid.⁹

These criminals seem capable of cheating the government with frightening ease. One convicted felon whose previous experience was owning a nightclub in Miami bragged:

I had no experience or training in health care services. . . . Without this experience and with no knowledge of the Medicare program, I purchased a business and started billing Medicare. It was very easy for me to get approval from Medicare to become a provider. . . . They gave me a provider number over the phone. No one from the government or anywhere else ever came to my place of business to check any information on the application. No one ever checked my

⁷*Ibid.*, p. 13.

⁸*Ibid.*, p. 20.

⁹General Accounting Office, “Health Care Fraud: Schemes to Defraud Medicare, Medicaid, and Private Health Care Insurers,” GAO/T-OSI-00-15 (July 25, 2000).

*credentials or asked if I was qualified to operate a medical supply business.*¹⁰

The Department also has serious problems with its own contractors. The Medicare program is administered through about 50 contractors that handle claims processing and administration. The contractors are responsible for paying health care providers under Medicare fee-for-service, fully accounting for Medicare funds, and conducting activities designed to safeguard program funds. For several years, the IG has reported problems in the Medicare contractors' financial management and accounting procedures and longstanding weaknesses in internal controls.

As part of their payment safeguard activities, Medicare contractors are required to have fraud units to detect fraud and abuse by providers. Staff turnover, lack of proper training, and lack of understanding of program requirements have hampered the effectiveness of the fraud units. Worse yet, there have been fraud problems with the contractors themselves. One contractor prepared bogus documents to falsely demonstrate superior performance, which Medicare then rewarded with bonuses and additional contracts. Some contractors adjusted their claims processing so that system edits designed to prevent inappropriate payments were turned off, resulting in misspent Medicare funds. Contractor cost reports were found to contain improprieties, such as claiming private insurance business costs as if they were costs incurred under Medicare contracts. As GAO observed:

*Although Medicare contractors are the front line of defense against health care provider fraud and abuse and erroneous Medicare payments, in the 1990's, several contractors defrauded the government or settled cases alleging fraud for hundreds of millions of dollars. The Department rarely uncovered these cases through its own oversight, in part because it relied on self-certifications and self-reporting by the contractors, and seldom attempted to independently verify their information.*¹¹

Another source of Medicare waste is the excessive rates that Medicare pays for some goods and services. While Medicare doesn't pay for most over-the-counter prescription drugs, it does cover some drug expenses. Its total payments for prescription drugs have risen sixfold over the past decade from about \$700 million to almost \$4 billion. However, Medicare pays at exorbitant rates. This is wasteful now, and would become much more serious if the program is expanded to offer a broader prescription drug benefit.

Medicare's payment methodology for drugs is fundamentally flawed. Medicare bases its payments on a drug's "average wholesale price." However, the "average wholesale price" that

¹⁰Quoted in General Accounting Office, "Medicaid: HCFA and States Could Work Together to Better Ensure the Integrity of Providers," GAO/T-HEHS-00-159 (July 18, 2000), p. 5. This individual was actually caught for defrauding Medicaid.

¹¹General Accounting Office, "Major Management Challenges and Program Risks: Department of Health and Human Services," GAO-01-247 (January 2001), p. 19.

Medicare uses is essentially meaningless since it bears little or no resemblance to actual wholesale prices available to physicians, suppliers, and other large government purchasers. The Medicare reimbursement rate for a particular drug sometimes also includes payment for dispensing and administering a drug. However, numerous IG reports have found that Medicare still pays too much for prescription drugs. For example:

- A review of 34 Medicare-covered drugs for which Medicare paid \$2.1 billion found that Medicare and its beneficiaries would have saved \$1 billion in 1998 if the allowed amounts for the drugs were equal to prices obtained by the Department of Veterans Affairs. Medicare paid between 15 percent and 1,600 percent more than the Department of Veterans Affairs for each of the 34 drugs.¹²
- Medicare pays almost double the Medicaid price and almost seven times more than the Department of Veterans Affairs for one milligram of albuterol. Nearly every pharmacy sells generic albuterol at prices lower than Medicare pays. Any consumer could buy a monthly supply of albuterol for about \$52. For the same monthly supply, Medicare and its beneficiaries pay \$120, \$96 from Medicare and \$24 from the beneficiary.¹³

Managed care plans under the Medicare+Choice option also have their share of integrity problems. GAO cites the following examples:

- C Some plans were paid for deceased beneficiaries and beneficiaries who were already covered by the fee-for-services part of Medicare.
- C Some plans classified healthy beneficiaries residing in retirement communities as living in “institutions,” thereby substantially increasing their Medicare payments.
- C One large plan provided a prescription drug benefit with less coverage than agreed to in its contract with Medicare.
- C Several plans distributed marketing materials that contained inaccurate, misleading, or incomplete information about the benefits they covered.
- C Some plans failed to adequately inform beneficiaries about their rights to appeal decisions on coverage or payment issues.¹⁴

Medicaid

¹²Department of Health and Human Services, Office of Inspector General, “Top Ten Management Challenges for the Department of Health and Human Services” (December 1, 2000).

¹³*Ibid.*

¹⁴General Accounting Office, “Major Management Challenges and Program Risks: Department of Health and Human Services,” GAO-01-247 (January 2001), p. 24.

The Medicaid program is funded with both state and federal dollars and is administered by the states under state plans that the Department of Health and Human Services approves. Medicaid payments totaled about \$207 billion in 2000, of which the federal share was \$118.7 billion. The program served more than 33 million people. The Medicaid program has the same problems of waste and error as Medicare—and probably has similar losses amounting to billions of dollars annually. However, there is no estimated error rate for Medicaid. The IG has recommended that such an estimate be developed, but the Department and most states have thus far failed to do so.¹⁵ Medicaid also has similar criminal fraud problems:

- Federal and state investigators uncovered a massive criminal scheme to fraudulently bill California’s Medicaid program, known as “Medi-Cal,” for medical supplies. They estimate that this scheme will eventually cost taxpayers more than \$1 billion. They are now investigating another scheme in which medical records stolen from hospitals and clinics were used to set up phony medical operations with ghost doctors and phantom patients. They estimate this scheme will cost millions in Medicaid funds.¹⁶

The IG and GAO have also raised concerns about practices that the states themselves engage in under the Medicaid program. The IG found that some states required public providers to return Medicaid payments to the state governments. Once the payments were returned, the states used the funds for other purposes, some of which were unrelated to Medicaid. These payments could cost the federal government \$12 billion over 5 years. The Congressional Budget Office recently estimated the loss could be as high as \$127 billion over 10 years if all states aggressively pursued these abusive practices.¹⁷

Financial and information management

The Department got an unqualified, or “clean,” opinion on its financial statements for fiscal year 2000. However, it still can’t use its financial systems for day-to-day management. The Department’s clean opinion came only after billions of dollars of discrepancies were figured out many months after the end of the fiscal year. For example, the year-end balance for grant expenditures was initially off by \$2.7 billion, including about \$1 billion in grant payments that had been charged to the wrong appropriation account. The IG found weaknesses in the Department’s accounting systems that impeded its daily operations. For example, the

¹⁵Department of Health and Human Services, Office of Inspector General, “Report on the Financial Statement Audit of the Department of Health and Human Services for Fiscal Year 2000,” A-17-00-00014 (February 2001), p. 17-18.

¹⁶Amy Pyle, “State Probing Another Major Medi-Cal Scam,” *Los Angeles Times* (December 30, 1999).

¹⁷Department of Health and Human Services, Office of Inspector General, “Top Ten Management Challenges for the Department of Health and Human Services” (December 1, 2000); General Accounting Office, “Medicaid: State Financing Schemes Again Drive Up Federal Payments,” GAO/T-HEHS-00-193 (September 6, 2000).

Department lacks reasonable controls to oversee Medicare contractors and assure that errors are detected on a timely basis. The Department relies extensively on electronic data processing for Medicare. However, both the Department's own electronic data processing systems and those of its contractors had numerous weaknesses that made them vulnerable to improper payments and to unauthorized access and disclosure of sensitive information.¹⁸

In the early 1990's, the Department launched an initiative to replace Medicare's multiple, contractor-operated claims processing systems with a single, more technologically-advanced information system. However, this initiative failed due to a series of planning and implementation missteps. A new integrated system is not expected to be ready until 2004 at the earliest. In the mean time, the Department continues to operate under fragmented systems that don't talk to each other. This feeds fraud and error.¹⁹ For example:

- Medicare paid an estimated \$20.6 million for services that started after the beneficiaries' dates of death. Of this amount, \$8 million was paid despite the fact that the beneficiaries' dates of death were already recorded in the Department's database at the time the claims were processed.²⁰

Staffing problems

The Department lacks the management and staff needed to handle its complex responsibilities under Medicare and Medicaid. Its Health Care Financing Administration has had 19 administrators or acting administrators in the 24 years since its inception. This impedes long-term planning. Department employees lack experience overseeing preferred provider organizations, private fee-for-service plans, and medical savings accounts. Many employees lack experience in dealing with health maintenance organizations. Few of its staff assigned to managed care oversight have training or experience in data analysis, which is key to monitoring trends in performance against local and national norms.²¹ Employees who lack basic accounting skills and training handle enormous transactions. This increases the risk of huge losses:

- Inadequate training and supervision, compounded by inconsistent procedures, caused inexperienced Department employees to make clerical errors in accounting for Medicare

¹⁸Department of Health and Human Services, Office of Inspector General, "Report on the Financial Statement Audit of the Department of Health and Human Services for Fiscal Year 2000," p. 5-8, 13-14.

¹⁹General Accounting Office, "Major Management Challenges and Program Risks: Department of Health and Human Services," GAO-01-247 (January 2001), p. 25-28.

²⁰Department of Health and Human Services, Office of Inspector General, "Semiannual Report for April 1 to September 30, 2000," p. 34.

²¹General Accounting Office, "Major Management Challenges and Program Risks: Department of Health and Human Services," GAO-01-247 (January 2001), p. 13.

trust funds. These errors totaled \$32 billion and, until discovered and corrected, cost the trust funds \$120 million in lost interest.²²

If the Department is to fix the problems with Medicare and Medicaid, as well as other troubled programs it operates, it will first need to get its own house in order. This means fixing its weaknesses in financial management, information technology, and staffing.

²²General Accounting Office, "Clerical Errors in the Medicare HI and SMI Trust Funds," GAO-01-39R (October 31, 2000).

VIII. Department of Housing and Urban Development

The Housing and Urban Development Department has long been known as perhaps the most mismanaged of federal agencies. So when Secretary Mel Martinez pledged to Congress to get the department's house in order, he set upon himself one of the Bush administration's most daunting tasks.

Federal Times¹

The Department of Housing and Urban Development encourages home ownership by providing mortgage insurance for about 7 million homeowners who might not otherwise qualify for loans. The Department provides affordable housing for about 4 million low-income households by insuring loans for multifamily rental housing and providing rental assistance. It also conducts community development programs. The Department has an annual budget of about \$32 billion. In addition, it manages about \$508 billion in insured mortgages and \$570 billion in guarantees of mortgage-backed securities.

The Department relies on thousands of mortgage lenders, contractors, property owners, public housing agencies, communities, and others to administer its programs. Strong oversight and management by the Department is essential. However, in the late 1980s, there were a number of widely publicized instances of waste, fraud, abuse, and mismanagement at the Department. In 1994, the GAO designated the whole Department as “high risk” because of four major department-wide deficiencies that continued to undermine the integrity and accountability of its programs. These deficiencies were: (1) internal control weaknesses; (2) ineffective and generally unreliable information and financial management systems; (3) a fundamental lack of management accountability and responsibility; and (4) insufficient staff with the proper skills.

GAO still considers much of what the Department does to be high risk. The 2001 update of the GAO high-risk list included two of the Department's major program areas—Single-Family Mortgage Insurance and Rental Housing Assistance. These programs account for about two-thirds of all the funds for which the Department is responsible. GAO also reports that the Department continues to suffer from department-wide weaknesses in staffing as well as information and financial management.²

The Department's IG also has consistently reported on the massive management problems facing the Department and the limited progress toward solving them:

While numerous organizational and business process changes have been made, the Office of the Inspector General sees HUD 2020 [the Department's management reform plan] as a work continuously in progress, with promised performance improvements yet to

¹Bill Landauer, “Management Morass Tops HUD Agenda,” *Federal Times* (February 19, 2001).

²General Accounting Office, “Major Management Challenges and Program Risks: Department of Housing and Urban Development,” GAO-01-248 (January 2001).

*materialize. Moreover, despite the myriad HUD 2020 changes, HUD still doesn't have a solid foundation of skilled staff, a streamlined program inventory, and effective management systems—elements that the Office of Inspector General views as essential for meaningful HUD reform.*³

The following describes in more detail several of the Department's most serious management problems:

- C Single-family mortgage insurance;
- C Rental housing assistance;
- C Staffing; and
- C Financial and information management.

Single-family mortgage insurance

The Department administers several programs to make home mortgage financing more accessible, particularly for low-income and first-time home buyers. To expand home ownership, the Department insures private lenders against nearly all losses on mortgages that finance single-family homes. As of the end of fiscal year 1999, the Department had insurance commitments on about 6.7 million mortgages with a value of about \$454 billion.

In recent years, various factors, especially favorable economic conditions, have resulted in a national home ownership rate that has increased to an all-time high.⁴ However, due to poor oversight of its contractors and other management deficiencies, the Department continues to lose funds (about \$1.9 billion last year) on the sale of foreclosed homes that it insured. Among other shortcomings, the Department fails to:

- C take reasonable steps to make sure that lenders who can make insurance commitments are qualified;
- C monitor those loans and lenders that pose the greatest risks;
- C monitor appraisers and hold them accountable for inaccurate appraisals that inflate property values and expose the Department to more risk; or
- C enforce its policy to hold lenders accountable for the work of appraisers they select.⁵

The Department's IG describes the single-family mortgage insurance program as "beset by

³Department of Housing and Urban Development, Office of Inspector General, "Semiannual Report to the Congress" (September 30, 2000), Inspector General's Message.

⁴General Accounting Office, "Major Management Challenges and Program Risks: Department of Housing and Urban Development," GAO-01-248 (January 2001), p. 15.

⁵General Accounting Office, "Major Management Challenges and Program Risks: Department of Housing and Urban Development," GAO-01-248 (January 2001), p. 16-18.

fraud,” which has devastating effects on victimized borrowers. Also, the growing number of foreclosures can destroy neighborhoods.⁶

IG reports are replete with examples of fraud and mismanagement in the single family program:

- C A criminal investigation conducted in Houston, Texas, called “Operation Straw House,” uncovered a massive scheme to defraud the Department and commercial mortgage lenders. The scheme involved three criminal organizations and an estimated \$74 million in fraudulent insured loans obtained by approximately 75 individuals.
- C A former Department employee was convicted of accepting a bribe and tax evasion after she sold 82 of the Department’s properties valued at about \$9.1 million for a total of \$2 million. She was also ordered to stop working on business affecting the Department. It seems that after the Department fired her, she had been hired as a consultant by lenders to do “quality control work” on Department-insured loans.
- C Four people in Los Angeles were convicted in a multi-million dollar loan fraud scheme. They had recruited unqualified home buyers and submitted applications containing phony documents in order to obtain Department-insured loans. The fraudulent loans totaled about \$6.5 million.⁷

Rental housing assistance

About 4,500 housing authorities administer the Department’s public housing and tenant-based rental assistance programs, which serve over 2.8 million households. The Department contracts with private property owners to provide housing rental assistance, called “Section 8” project-based assistance, on behalf of eligible low-income households. There are 22,000 project-based Section 8 contracts covering about 993,000 multi-family housing units.

Over the years, GAO, the IG, and others have documented problems in the Department’s management and oversight of these rental housing programs. The IG has reported on a number of these management failures and the harm inflicted on the people the programs are designed to serve:

- C The Public Housing Authority in Bridgeport, Connecticut, received \$750,000 in excess operating subsidies and incurred \$300,000 in unnecessary utility expenses for units in the Trumble Gardens complex that had remained vacant for 4 years. Because of management negligence, many of these vacant units had been severely damaged by vandalism, water,

⁶Department of Housing and Urban Development, Office of Inspector General, “Semiannual Report to the Congress” (September 30, 2000), Inspector General’s Message.

⁷*Ibid.*, p. 12-13, 68.

and bird infestations. The Authority consistently had high vacancy rates, averaging 11 percent, despite waiting lists of 1,900 families. Over a three-year period, the Department paid the Authority about \$2.5 million in operating subsidies for vacant units.

- C Rental housing managers have been caught engaging in a criminal practice called “equity skimming.” This is the willful misuse of rents or other proceeds from properties held or insured by the Department. This practice deprives projects of needed funds for repairs and maintenance. This, in turn, contributes to the deterioration of properties and substandard living conditions for their tenants. In Tampa, Florida, 10 individuals and one business were convicted of “skimming” over \$1 million from Department subsidy payments for 17 insured properties.⁸
- C Housing projects often are hubs of violent crime and drug trafficking. In South Jamaica, New York, members of a violent gang called the “Chomp Crew” were convicted of operating a multi-million drug trafficking enterprise in and around a public housing development. So far, over 100 drug dealers and their associates have been arrested.⁹

Staffing

Many of the management and oversight deficiencies described above stem from chronic staffing problems within the Department. The IG stressed the impact of the Department’s staffing problems in Congressional testimony last fall:

The adequacy of staff resources in the Department has long been a concern of the Office of Inspector General and a root cause of many of HUD’s material weaknesses. Our audits have consistently found a mismatch between the number and complexity of HUD’s programs and the capability of HUD staff to administer those programs. In a 1997 count of HUD’s programs, we identified over 300 separable program/activities. A count today using similar measures would likely show programs/activities increasing. We are concerned when Secretary Cuomo announces new initiatives, such as Teacher Next Door, Officer Next Door, Gun Buyback, Gun Safety, Healthy Homes, etc. While each of these activities may offer benefits in and of themselves, HUD cannot afford to deal with an increasing number of small programs that are staff intensive to manage. . . . In my mind, adding more weight to an already weak foundation makes HUD a more vulnerable organization.¹⁰

Two of the new programs the IG mentioned—the Officer Next Door and the Teacher Next Door—illustrate the problem. These programs permit police officers and teachers to buy at half

⁸*Ibid.*, p. 14.

⁹*Ibid.*, p. 42, 64, 86.

¹⁰Susan Gaffney, Inspector General, Department of Housing and Urban Development, Statement before the Senate Subcommittee on Housing and Transportation (September 26, 2000), p. 3-4.

price homes that the Department owns in troubled neighborhoods. Participating teachers and officers have to agree to live in the homes for 3 years. The idea is that their presence will improve the troubled neighborhoods. However, due to lax oversight by the Department, the programs are plagued by fraud. An estimated one-quarter of the participants defraud the programs by renting out to others the cut-rate properties they buy, by moving out early, or just by leaving the properties vacant. So far, nine police officer participants have been convicted of fraud; another 72 are under investigation.¹¹

According to the IG, the Department's staffing problems have a severe impact on its single-family insurance program. The IG's audits and investigations have found that the Department's current procedures for monitoring lenders, overseeing contractors, and supervising staff activities are ineffective. This lack of oversight and accountability results in criminal activities going undetected and in major losses to the insurance fund. The Department attempted to make up for its staff shortages by contracting out major activities. However, its remaining staff lacked the ability to monitor the increased level of contractor activity.¹²

GAO also has identified persistent staff weaknesses affecting the Department and particularly the single-family programs. GAO noted that staffing for single-family programs was cut in half by the Department's management "reforms." A lack of staff and insufficient training and travel resources were cited as reasons for some of the problems GAO identified in reviews of single-family programs and in the responses of Department managers to a survey GAO recently conducted.¹³

At a time when the Department needed experienced employees to perform operational work, former Secretary Cuomo committed 10 percent of the Department's staff resources to an initiative called "Community Builders." This initiative brought inexperienced people into the Department to "improve community outreach." The IG found that the Community Builders were largely ineffective, and sometimes made things worse. The majority of Community Builders interviewed by the IG said that they spent more than half their time on public relations activities. In some cases, the Community Builders' limited knowledge of the Department's programs caused them to give bad advice to communities or to improperly interfere with the work of other Department employees.¹⁴

Financial and information management

¹¹"Discount Home Program Beset by Fraud," *Los Angeles Times* (March 4, 2000). To his credit, Secretary Martinez has suspended this program until oversight can be improved.

¹²Department of Housing and Urban Development, Office of Inspector General, "Semiannual Report to the Congress," September 30, 2000, p. 4-5.

¹³General Accounting Office, "Major Management Challenges and Program Risks: Department of Housing and Urban Development," GAO-01-248 (January 2001), p. 20-21.

¹⁴Susan Gaffney, Inspector General, Department of Housing and Urban Development, Statement before the Senate Subcommittee on Housing and Transportation (September 26, 2000), p. 6.

Both GAO and the IG have reported on long-standing financial management problems at the Department. The Department got an unqualified, or “clean” opinion on its financial statements last year, which was improvement over the year before. However, the Department still can’t use its financial systems for day-to-day management of its operations. Among the Department’s major financial management weaknesses are inadequate oversight and monitoring of housing subsidy determinations, and deficient controls to ensure that subsidies are based on correct tenant income. These weaknesses have a direct impact on the Department’s programs:

- C A recent study of rent determinations in the Department’s major programs found substantial subsidy overpayments and under-payments. The study projected that, on an annual basis, some households were overpaid about \$1.9 billion in rent subsidies, while other households received about \$0.7 billion less than the rent subsidies to which they were entitled.
- C The Department estimated that tenants in assisted housing received excess subsidy payments of \$617 million in 1999 because they misreported their income.¹⁵

Likewise, GAO reported that excess subsidy payments totaled about \$ 3.1 billion over the last four years and increased for each of those years.¹⁶

The Department also has long-standing problems dealing with its information technology needs. According to the IG:

[T]he Department has not been successful in establishing effective processes for planning and controlling its overall information technology resources. We continue to report instances where inadequate controls over information technology operations and investments have put [the Department’s] data systems and data at risk. Since 1993, the Office of Inspector General has reported as a material weakness slow progress towards improving financial management systems, control weaknesses over critical systems applications, inadequate tracking of system development costs, and poor contracting practices. Without strong controls over information technology resources, [the Department’s] systems may not meet business needs, resulting in inaccurate and unreliable data, system

¹⁵Department of Housing and Urban Development, Office of Inspector General, “U.S. Department of Housing and Urban Development: Audit of Fiscal Year 2000 Financial Statements,” 2001-FO-0003 (March 1, 2001), p. 1, 4.

¹⁶General Accounting Office, “Major Management Challenges and Program Risks: Department of Housing and Urban Development,” GAO-01-248 (January 2001), p. 11, 28.

*failures, and excessive costs.*¹⁷

The GAO has designated computer security as a government-wide high-risk problem. Like most agencies, the Department has computer security weaknesses. The IG has reported for years that the Department has weak security controls over sensitive payment and privacy-related data in its main computer system. The IG also has reported for years that the Department does not have adequate security controls to limit access to sensitive information by its employees and agents. For example:

- C Individuals continued to have access to sensitive Department information systems after they ceased to be Department employees or transferred to other positions within the Department that did not require such access.
- C In 1999, the Department had a backlog of as many as 8,200 users who had access to the Department's critical information systems without appropriate background investigations. The Department claims to have eliminated this backlog, but the IG says it still stands at almost 6,000.¹⁸

¹⁷Susan Gaffney, Inspector General, Department of Housing and Urban Development, Statement before the Senate Subcommittee on Housing and Transportation (September 26, 2000), p. 8-9.

¹⁸Department of Housing and Urban Development, Office of Inspector General, "U.S. Department of Housing and Urban Development: Audit of Fiscal Year 2000 Financial Statements," 2001-FO-0003 (March 1, 2001), p. 42-47.

IX. Department of the Interior

[The government's mismanagement of American Indian trust funds] certainly would not be tolerated from private sector trustees. It is fiscal and governmental irresponsibility in its purest form.

The Honorable Royce C. Lamberth
United States District Judge
District of Columbia¹

The Interior Department has jurisdiction over 450 million acres of land and about 1.5 billion acres of the Outer Continental Shelf. It safeguards the many resources under its jurisdiction, including the National Parks system, allows for the production of minerals on public lands, and works to meet the nation's commitment to American Indians. Congress has appropriated about \$7 to \$8 billion annually to allow the Department to meet its responsibilities. With these resources, Interior employs about 66,000 people in eight major agencies and bureaus at over 4,000 sites around the country.

To accomplish these varied missions, the Department of the Interior manages a number of large organizations—or bureaus. These include the Bureau of Land Management, the Minerals Management Service, the Office of Surface Mining, the Bureau of Reclamation, the Geological Survey, the Fish and Wildlife Service, the National Park Service, the Bureau of Indian Affairs, and the Office of Insular Affairs. Largely because of this expansive and disjointed organization, the Department of the Interior suffers from some of the government's worst management problems. According the Department's IG and GAO, the Interior Department's worst problems include the following:

- Violating the trust of Indians and insular areas;
- Poor financial management;
- Mismanagement of computer technology;
- Poor attention to health and safety;
- Poor maintenance of facilities, especially the national parks; and
- Waste in procurement, contracts, and grants.

Violating the trust of Indians and Insular Areas

The Department of the Interior is legally obligated to ensure that American Indian and Alaska Native resources and lands are properly managed, protected, and conserved. The Interior Department, as trustee for the tribes, manages \$3 billion on the tribes' behalf. In addition, it distributes \$1.8 billion annually for services provided to American Indians. However, according to GAO, the Department "cannot assure trust account holders that their balances are accurate or

¹*Cobell v. Babbitt*, No. 96-1285 (D.D.C. Dec. 21, 1999) (Memorandum Opinion keeping the court's jurisdiction over Interior's efforts to repair the trust fund's accounting system for at least five years, and requiring Interior to file quarterly reports with the court.)

that their assets are being properly managed.”² As far back as 1993, GAO wrote, “Over the years, countless audit reports and internal studies have cited a litany of serious problems in [the Bureau of Indian Affairs’] oversight of these accounts.”³ Among the problems GAO cited in a 1995 report were “missing lease and accounting records; the inability to verify that all earned revenues were collected, posted to the correct account, and disbursed to the proper party; and the lack of accurate, up-to-date ownership information.”⁴

In 1999, as the result of a lawsuit by Native Americans seeking an accounting of their trust funds, Federal District Judge Royce Lamberth wrote of Interior’s management of the Indian Trust Funds:

[D]efendants, the trustee-delegates of the United States, continue to write checks on an account that they cannot balance or reconcile. The court knows of no other program in American government in which federal officials are allowed to write checks—some of which are known to be written in erroneous amounts—from unreconciled accounts—some of which are known to have incorrect balances. Such behavior certainly would not be tolerated from private sector trustees. It is fiscal and governmental irresponsibility in its purest form.

*The United States’ mismanagement of the [Indians’] trust is far more inexcusable than garden-variety trust mismanagement of a typical donative trust. For the beneficiaries of this trust did not voluntarily choose to have their lands taken from them; they did not willingly relinquish pervasive control of their money to the United States. The United States imposed this trust on the Indian people. . . . But the United States has refused to act in accordance with the fiduciary obligations attendant to the imposition of the trust, which are not imposed by statute.*⁵

Unfortunately, there is no end in sight to the problems with the Indian Trust Funds. The Chief Information Officer at the Bureau of Indian Affairs overseeing the accounting of the Indian Trust Funds wrote as recently as February 23, 2001, that “trust reform is slowly, but surely imploding at this point in time.”

Mismanagement by the Department of the Interior is not limited to American Indians and

²General Accounting Office, “Performance and Accountability Series: Major Management Challenges and Program Risks: Department of the Interior,” GAO-01-249 (January 2001).

³General Accounting Office, “Financial Management: BIA’s Management of the Indian Trust Funds,” T-AIMD-93-4 (September 27, 1993).

⁴General Accounting Office, “Financial Management: Indian Trust Fund Accounts Cannot Be Fully Reconciled,” GAO/T-AIMD-95-94 (March 8, 1995).

⁵*Cobell v. Babbitt*, No. 96-1285 (D.D.C. Dec. 21, 1999).

Alaskan Natives. In fact, the Department's IG stated that he will continue to "focus on management improvements needed in the administration of various federally funded programs" under the jurisdiction of the Office of Insular Areas. These include grant programs that distribute federal funds to island territories like Guam, American Samoa, the U.S. Virgin Islands, and the Commonwealth of the Northern Mariana Islands. The IG wrote recently that "the insular area governments experience difficulties in accurately accounting for expenditures, collecting taxes, and other revenues, controlling the level of expenditures, and delivering program services."⁶ Some of the mismanagement the IG found included the following:

- A low-income housing program administered by the Virgin Islands Housing Authority wasted substantial federal funds because of duplicate payments to a contractor and because it could not account for \$1.1 million in Housing and Urban Development funds.⁷
- The Republic of Palau failed to complete 22 funded projects valued at \$48.3 million and allowed the discharge of pollutants into coastal waters because it had not begun a sewage treatment plant expansion, even though it had \$5.25 million in federal funds to do it.⁸
- An audit by the IG of a contract with Guam found that Guam's government had "expended \$4.3 million, obligated \$1.1 million, and retained an additional \$802,810 for noneducational purposes" even though the purpose of the contract was education. In addition, according to the IG, Guam's Department of Education "used \$35,075 for noneducational purposes and did not use \$3.5 million of contract funds in a timely manner."⁹

These problems are emblematic of Interior's financial management problems.

Financial Management

Although the Department of the Interior received a clean opinion on its financial statements for the second year in a row, that simply means it could balance its books at the end of the year. The accomplishment disguises the fact that, as the agency's IG wrote, "The preparation of reliable financial statements as required by [law] continues to be a major challenge facing the Department

⁶Department of the Interior, Office of Inspector General, "Independent Auditor's Report on the Department of the Interior Annual Report for Fiscal Year 2000," 01-I-257 (February 28, 2001).

⁷*Ibid.*

⁸*Ibid.*

⁹*Ibid.*

and its bureaus.”¹⁰ In addition to the issues listed above, some of the problems confronting the Department include:

- Despite the fact that Interior has jurisdiction over 450 million acres of land and about 1.5 billion acres of the Outer Continental Shelf, the Department’s inventory system does not have complete and accurate information on the lands within its control or the land rights that come with that property.¹¹
- The Department had great difficulty confirming that it engaged in \$11.3 billion worth of transactions with other federal agencies. After asking other agencies to assist in the confirmation of these transactions, the Department was able to figure out what had happened in all transactions, except \$71 million worth.¹²
- The Bureau of Indian Affairs was owed \$6.7 million in delinquent debts that had been outstanding for more than 180 days.¹³

Mismanagement of Computer Technology

As at most federal agencies, the management of computer technology at the Interior Department often wastes federal resources. In his most recent letter to the Governmental Affairs Committee, the IG at the Interior Department described the system under development at the Bureau of Land Management. The IG wrote, “Our prior listing of management challenges identified [the Bureau of Land Management’s] lack of an automated lands and minerals records system as a separate management problem area. After [the Bureau] spent almost \$440 million from fiscal years 1983 through 1999 on developing the Automated Land and Mineral Records System, the system has not been deployed because of significant deficiencies. Developing an adequate system is expected to take several years and continues to be a major challenge facing the Department.”¹⁴

In addition to poor management of major computer projects, the Department also has a difficult time managing privacy and security issues. For instance:

- According to the IG, the Bureau of Land Management and the National Park Service were

¹⁰Department of the Interior, Office of Inspector General, “Top Ten Management Challenges for the Department of the Interior” (December 1, 2000).

¹¹*Ibid.*

¹²*Ibid.*

¹³*Ibid.*

¹⁴Department of the Interior, Office of Inspector General, “Top Ten Management Challenges for the Department of the Interior” (December 1, 2000).

found to use information-collecting devices called “cookies” on their Web sites without informing the public. These “cookies” are placed in a computer’s system to identify the computer of the person visiting the Bureau’s site and track that user’s use of the Internet. Both agencies were violating government policy on privacy because the Web sites’ privacy policies failed to mention cookies entirely.¹⁵

- In September 2000, the House Subcommittee on Government Management, Information, and Technology gave the Interior Department an “F” in information security.¹⁶

Poor Attention to Health and Safety

The Department of the Interior is responsible for protecting the health and safety of the increasing number of recreational visitors to its lands and facilities, as well as its own workforce. In 1999, national parks were visited by more than 280 million people, the Bureau of Land Management’s public lands had about 75 million visits, the Fish and Wildlife Service’s National Wildlife Refuge System had about 36 million visits, and the Bureau of Reclamation’s water projects created water-based recreation opportunities for about 90 million visitors. Accordingly, ensuring employee and visitor safety is clearly a priority. Unfortunately, the Department often has difficulty meeting that challenge.

Although the Secretary of the Interior is chiefly responsible for the maintenance of federal land and facilities under the Department’s jurisdiction, the Secretary is authorized to contract with private organizations to run and maintain the properties. In one investigation, the IG found raw sewage flowing directly into a privately-run federal reservoir—Lake Berryessa. Also at Lake Berryessa, the IG found “mobile homes . . . ‘perched’ over eroding lake embankments, posing a significant safety risk.” In another investigation, the IG found that batteries were improperly stored—or dumped—at Canyon Ferry reservoir in Helena, Montana.¹⁷

According to GAO, more than 1,400 fires have occurred at National Park Service structures since 1990, killing five people, injuring many others, and resulting in millions of dollars in property losses.¹⁸ As early as 1998, the Park Service recognized the danger. An internal Park Service report stated, “[S]ooner or later the [National Park Service] stands to be seriously embarrassed (at

¹⁵Senate Governmental Affairs Committee Press Release, “Administration Compromises Citizens’ Privacy: Thompson Reveals Agency Policy Violations and Breaches of Computer Security That Leave Citizen Privacy at Risk” (October 20, 2000).

¹⁶Patrick Thibodeau, “Federal Agencies Get Poor Grades for Security,” *Computerworld* (September 18, 2000), p. 20.

¹⁷Department of the Interior, Office of Inspector General, “Semiannual Report to the Congress” (October 2000).

¹⁸General Accounting Office, “Park Service: Agency is not Meeting Its Structural Fire Safety Responsibilities,” T-RCED-00-253, (May 2000).

a minimum) by the catastrophic loss, either of an irreplaceable historic structure or collection, or of human life, from a structural fire.” And as recently as May 2000, GAO reported that structural fire safety was a low priority for the Park Service, and that serious deficiencies in the safety program remain. As a result, “the safety of park visitors, employees, buildings and artifacts [is] being jeopardized: [t]hey are vulnerable to fire that could cause damage, destruction, and severe injury and even the loss of life.” Park Service officials concede the conditions cited by GAO are typical of those throughout the 379-unit system.¹⁹

Poor Maintenance of Facilities

The risks to health and safety are largely the result of aging properties and facilities poorly maintained by the Department of the Interior. Adequate maintenance of the Department’s large and aging inventory of buildings, structures, facilities, and equipment continues to be one of the most challenging issues facing the Department. The Department is responsible for maintaining a wide variety of assets, including schools, office buildings, bridges, dams, irrigation systems, roads, and historic buildings and structures. The backlog of needed maintenance for these properties and facilities will continue to mushroom. In fact, the Department reported that as of September 30, 1999, the cost of the backlogged maintenance ranged from \$7.8 billion to \$13.7 billion. Reviews conducted by the IG, GAO, and the bureaus show that the Department has not been able to effectively carry out its maintenance responsibilities *or even develop a reliable estimate of the extent of the backlog.*

GAO found that the National Park Service has insufficient information about the condition of properties within its responsibility. According to GAO, “Frequently, baseline information about natural and cultural resources is incomplete or nonexistent, making it difficult for park managers to clearly ascertain the condition of resources and whether resources are deteriorating, improving, or staying the same.”²⁰ A recent report by GAO shows 20 structures on Ellis Island, New York, that are in a “seriously deteriorating condition,” some of which have “leaking roofs and peeling walls.”²¹ Another area of concern, according to the IG, is the maintenance of National Park Service employee housing. The National Park Service itself has said that many of its housing units are in “poor” condition and that the “substandard housing” put its employees at “physical risk.”²²

¹⁹*Ibid.*

²⁰General Accounting Office, “Performance and Accountability Series: Major Management Challenges and Program Risks: Department of the Interior,” GAO-01-249 (January 2001).

²¹*Ibid.*

²²Department of Interior, Office of Inspector General, “Special Report on the Cost of Construction of Employee Housing at Grand Canyon and Yosemite National Parks, National Park Service,” 97-I-224 (December 6, 1996).

Procurement, Contracts, and Grants

In 1999, the Interior Department spent in excess of \$3 billion on goods and services and provided an additional \$2 billion to states and Indian tribes in grants and other types of federal assistance. This has traditionally been an area susceptible to waste, fraud, and abuse.

One particular area of concern is the Department's new credit card program, which accounted for more than \$300 million of the Department's expenditures in fiscal year 2000. In a recent investigation by the IG, it was discovered that Department employees were circumventing the rules and regulations regarding the use of the credit card.²³ For instance:

- Many credit card statements were not checked to verify that items purchased were actually for valid government purposes.
- Some cardholders allowed non-cardholders to use their cards.
- Many cardholders included in the review did not adequately safeguard their purchase cards.

The examples of abuses discovered in the IG's investigation are numerous:²⁴

- One employee purchased more than \$5000 in services for water treatment and duct cleaning. However, the IG could not verify that this was a valid government purpose.
- Once cardholder made three transactions, valued at \$1,518, but no documentation existed for the purchases and the employee could not remember what was purchased.
- One Office of Aircraft Services supervisor approved 26 transactions, valued at \$61,325, even though *there were no invoices and/or receipts* for 12 purchases, totaling \$42,833.
- An Office of Aircraft Services employee used a credit card to purchase a \$654 service, which was described as "services to provide helicopter." However, a letter from the vendor requesting payment referred to the service as, "[t]he job that I almost did." According to the IG, "the vendor was paid for a service that was not provided to the Office of Aircraft Services."

²³Department of the Interior, Office of Inspector General, "Survey Report on the Use of the Governmentwide Purchase Card," 99-i-375 (March 30, 1999).

²⁴*Ibid.*

X. Department of Justice

Overall, [the Justice Department's] progress in achieving desirable program outcomes cannot be readily determined since the agency has yet to develop performance goals and measures that can objectively capture and describe performance results.

U.S. General Accounting Office¹

As the nation's chief law enforcement agency, the Department of Justice is charged with protecting the public from violence and criminal activity, such as drug smuggling and acts of terrorism. The Department helps state and local governments improve their ability to prevent and control crime as well. The Department enforces the nation's civil rights laws. It also is responsible for preventing illegal immigration and helping those who lawfully migrate to the United States. The Department has an annual budget of over \$21 billion and a staff of nearly 110,000. Its major components include the Immigration and Naturalization Service, the Federal Bureau of Investigation, the Drug Enforcement Administration, and the U.S. Marshals Service.

The GAO and the Department's IG have reported on a number of performance and management problems at the Justice Department. One overriding problem is that the Department does a poor job of explaining what it is trying to accomplish and what it actually is accomplishing with the tax dollars entrusted to it. GAO reported last year that it could not determine what Justice achieved in its key areas of responsibility because of the Department's lack of meaningful performance measures.² For example:

- The Justice Department's Drug Enforcement Administration is the federal agency primarily responsible for combating illegal drugs, which cost our society about \$100 billion annually. To help it do this job, Congress substantially increased the agency's funding and staff. The Drug Enforcement Administration's budget (over \$1.5 billion for 2000) has more than doubled since 1993, and its staff increased by about 20 percent during the same period. However, the agency has not developed meaningful goals and measures that can be used to judge its performance and hold it accountable. Therefore, there is no way of knowing whether the agency, with all its staff and funding, has made any difference in reducing the entry of illegal drugs.³
- Likewise, GAO found it impossible to determine whether the billions spent on the Justice Department's efforts to reduce illegal immigration along the southwest border of the

¹General Accounting Office, "Observations on the Department of Justice's Fiscal Year 1999 Performance Report and Fiscal Year 2001 Performance Plan," GAO/GGD-00-155R (June 30, 2000), p. 1-2.

²*Ibid.*

³General Accounting Office, "Major Management Challenges and Program Risks: Department of Justice," GAO-01-250 (January 2001), pp. 28-29; General Accounting Office, "Drug Control: DEA's Strategies and Operations in the 1990s," GAO/GGD-99-108 (July 1999).

United States were achieving results because the Department had no strategy by which its performance could be judged.⁴

The Department's own IG also has criticized the Department's poor efforts to measure its performance and to be held accountable for what it does. In one case, the Department actually submitted misleading performance information to Congress and the public:

- The Justice Department's Community Oriented Policing Services ("COPS") program is an \$8.8 billion grant program begun in 1994 that was designed to put 100,000 additional police officers on America's streets. Last year, Justice reported that the COPS program "brought the ranks of funded community police officers to 103,720, exceeding the President's goal to fund 100,000 cops by the year 2000." However, the IG noted that the real goal of the COPS program was to have 100,000 new officers on the street, not just "funded." The IG reported that Justice would not come close to actually deploying 100,000 new officers for some time, and that it was unlikely that 100,000 additional officers would even be "funded as that term is commonly understood" by 2000.⁵

In addition to its lack of performance accountability, the Justice Department suffers from a series of core management problems that have been highlighted repeatedly by GAO and the IG. Many of these problems are concentrated at the Department's most troubled component agency, the Immigration and Naturalization Service. Justice also has several department-wide management deficiencies. The following problem areas are described in more detail below:

- C The Immigration and Naturalization Service;
- C Information technology management;
- C Financial management;
- C Forfeited assets management; and
- C Staffing.

Immigration and Naturalization Service

The Immigration and Naturalization Service is a poster child for mismanagement in the federal government. Congress has repeatedly expressed concern about the agency's ability to perform its functions, and has repeatedly increased its funding and staff resources in an effort to bolster its performance. The agency's \$4.3 billion budget for fiscal year 2000 represented an increase of 187 percent over 1993, and its staff increased over 80 percent during this period to nearly 33,000 employees. Unfortunately, there is little to show for this investment. GAO observes:

⁴General Accounting Office, "Major Management Challenges and Program Risks: Department of Justice," GAO-01-250 (January 2001), p. 17; General Accounting Office, "Illegal Immigration: Southwest Border Strategy Results Inconclusive; More Evaluation Needed," GAO/GGD-98-21 (December 1997).

⁵Department of Justice, Office of Inspector General, "Management and Administration of the Community Oriented Policing Services Grant Program," 99-21 (July 1999).

Despite the significant increase in resources, INS [the Immigration and Naturalization Service] continues to face challenges in achieving its intended results. Those challenges are related to INS' organizational structure and program implementation efforts, such as controlling the border, reducing alien smuggling and unauthorized alien employment, and addressing aliens' failure to appear for removal hearings. In addition, INS continues to have problems successfully developing and fielding information technology that is critical to its operations.

Proposals to restructure INS have been issued as a result of several critics' conclusion that "mission overload" has impeded INS from succeeding at either of its primary functions [combating illegal immigration and assisting legal immigration].⁶

Two of the IG-designated top 10 management problems at the Justice Department center on the Immigration and Naturalization Service. They are border control and removal of illegal aliens.⁷

Border control. The physical integrity of this country's borders is a critical challenge for the Department. Within the Immigration and Naturalization Service, the Border Patrol faces significant enforcement challenges along the southwest border and the northern border to stem the tide of illegal aliens, drugs, and terrorists. Each year, the Immigration and Naturalization Service apprehends approximately 1.5 million aliens attempting to enter the United States illegally or aliens who are in the United States illegally.

The Border Patrol lacks performance goals to judge its success in controlling U.S. borders, nor does it have target dates for improvements. The IG's recent review of the Border Patrol's enforcement efforts along the northern border found that northern border sectors are encountering organized criminal activity more often than Border Patrol offices along the southwest border. The IG also found that the level of illegal activity along the northern border is likely much greater than the Border Patrol can document, given the general lack of intelligence information relating to the northern border and the limited number of agents available to patrol the area.

The IG also noted that most of the world's prominent terrorist organizations have established operational bases in Canada, and these organizations help facilitate the illegal transit of their members into the United States. In addition, during the last 5 years several suspected terrorists have been involved in smuggling incidents or have applied for entry into the United States from Canada. For example, a Palestinian man convicted on charges of planning to bomb the New York City subway system had been previously arrested and released three times while trying to

⁶General Accounting Office, "Major Management Challenges and Program Risks: Department of Justice," GAO-01-250 (January 2001), p. 13-14.

⁷Department of Justice, Office of Inspector General, "Top Ten Management Challenges for the Department of Justice" (December 1, 2000), p. 7-9.

enter the United States illegally from Canada. Finally, large quantities of marijuana and cocaine are smuggled into the United States from Canada each year.

Removal of illegal aliens. According to the IG, the Immigration and Naturalization Service's program to deport illegal aliens is "largely ineffective." The Service is successful in deporting only about 11 percent of non-detained aliens after final deportation orders have been issued. Aliens who are convicted felons are inappropriately granted voluntary departure. The Service lacks an effective departure verification system and therefore has no way of knowing whether illegal aliens granted voluntary departure have actually left the country. The Service has failed to identify many deportable criminal aliens, including aggravated felons, or to initiate deportation proceedings for them before they are released from prison. The Service also lacks an enforcement policy that specifically targets aliens who overstay their visas.

Both the IG and GAO have reported on other major problems at the Immigration and Naturalization Service. For example:

- C The IG issued a comprehensive report that found the Immigration and Naturalization Service had compromised the integrity of the naturalization process during a 1996 effort, known as "Citizenship USA," that was designed to reduce the huge backlog of citizenship applications. More than one million people were granted citizenship under this effort. However, the Service did not carefully review their qualifications; inconsistently applied its standards for good moral character and English language ability; and did not conduct adequate criminal history background checks.⁸

According to GAO, management and operational problems at the Immigration and Naturalization Service hamper its ability to combat the growing problem of alien smuggling. The Service's investigative efforts are fragmented. In several border areas, multiple anti-smuggling units exist that operate autonomously, overlap in jurisdiction, and report to different Service officials. The Service also lacks staff to perform intelligence functions, and it lacks an agency-wide case tracking system to monitor and manage investigations.⁹

Information technology management

According to the IG, two more of the 10 most serious problems at the Department involve information technology management. One is the Department's general weakness in planning and

⁸Department of Justice, Office of Inspector General, "Semiannual Report to the Congress" (September 30, 2000), p. 4-5; Department of Justice, Office of Inspector General, "An Investigation of the Immigration and Naturalization Service's Citizenship USA Initiative" (July 31, 2000).

⁹General Accounting Office, "Major Management Challenges and Program Risks: Department of Justice," GAO-01-250 (January 2001), p. 17-18.

implementing information technology projects. The other is computer security.¹⁰

Information systems planning and implementation. Information systems provide critical support for many of the Department's operations. However, the IG has identified critically important computer systems in the Department that were poorly planned, experienced long delays in implementation, or did not provide timely, useful, or reliable data. For example, the Immigration and Naturalization Service continues to make huge investments (more than \$2 billion through the next several years) in automation systems that, up to now, have yielded dubious results. For example:

- After spending \$813 million on its automation programs, the Immigration and Naturalization Service still can't track the status of its projects to determine whether progress is acceptable. As a result, project costs continue to spiral upward with no baselines against which actual costs can be compared. Also, the Service's staff can't adequately explain how funds are spent. Over a 14-month period, at least seven automation projects experienced significant unexplained delays. In short, the Immigration and Naturalization Service continues to spend hundreds of millions of dollars on automation initiatives without being able to explain what the money was spent on or what it accomplished.¹¹

These computer problems limit the ability of the Immigration and Naturalization Service to do its job and, consequently, can affect public safety:

- The IG reported problems in the design and implementation of the Service's \$85 million automated fingerprint identification system used to identify and track criminal aliens, known as "IDENT." According to the IG, these problems contributed to the Service's failure to hold Rafael Resendez-Ramirez, a Mexican national with an extensive criminal record. Known as "the railway killer," Resendez was accused of committing multiple murders in the United States. He had been apprehended and released by the Service seven times while crossing the border illegally. The IG found that none of the Service employees who were contacted by other law enforcement agents seeking him had placed a lookout for him in IDENT. Furthermore, IDENT was not integrated with the FBI's automated fingerprint system.¹²

The IG's concerns about the Justice Department's information systems are not limited to the

¹⁰Department of Justice, Office of Inspector General, "Top Ten Management Challenges for the Department of Justice" (December 1, 2000), p. 1-4.

¹¹*Ibid.*, p. 1.

¹²*Ibid.*, p. 2; Department of Justice, Office of Inspector General, "The Rafael Resendez-Ramirez Case: A Review of the INS' Actions and the Operation of Its IDENT Automated Fingerprint Identification System," Special Report (March 2000).

Immigration and Naturalization Service:

- An IG special report issued in July 1999 examined how the Department handled FBI intelligence information related to its Campaign Finance Investigation and raised questions about how the FBI maintains its databases. The Department's Campaign Finance Task Force used the FBI's Automated Case Support system and other FBI databases to obtain information on individuals and organizations they had under investigation. However, problems in the way information was entered or searched in the databases, together with the way that search results were handled within the FBI, resulted in incomplete data being provided to the Task Force. In addition, many FBI personnel were not well versed in the use of the FBI's databases.¹³

Computer systems security. The GAO has designated computer security a government-wide "high-risk" problem. This makes it one of the areas throughout the federal government most vulnerable to fraud, waste, abuse, and mismanagement. Like many agencies, the Justice Department has major shortcomings in computer security.

The continuing development of more powerful computers, databases and networks has brought with it new threats to the security of the Department's systems and data. In September 2000, the Chairman of the House Government Reform Committee's Subcommittee on Government Management, Information and Technology gave the Department an "F" for its computer security efforts. In addition, the Department has listed computer security as a material weakness since 1991. Past IG audits have disclosed serious problems in computer security that could lead to the compromise of sensitive systems and data. In 2000, the IG issued computer security audit reports on the Drug Enforcement Administration Firebird System, the Office of Community Oriented Policing Services' Case Management System, and the Immigration and Naturalization Service's I-94 system. These reviews found that select computer controls were inadequate to protect the systems and their sensitive data from unauthorized use, loss, or modification.¹⁴

Financial management

For 1999 and again for 2000, the Department failed to receive an "unqualified" (or "clean") opinion on its financial statements. It received "qualified" opinions because of weaknesses at the Immigration and Naturalization Service. Most components of the Department tend to view the financial statements as an end-of-the-year assignment and often meet their responsibilities only by hiring a significant number of contractors. They don't have regularly functioning systems capable of providing accounting information needed to manage their operations on a day-to-day basis. One nagging problem that affects several components involves the implementation of new

¹³Department of Justice, Office of Inspector General, "Top Ten Management Challenges for the Department of Justice" (December 1, 2000), p. 3.

¹⁴*Ibid.*, p. 3-4.

financial systems. Most Department components work with commercial “off-the-shelf” software, but are having problems making the software function. It is imperative that these components solve these software problems if the Department is to improve its financial management.¹⁵

Financial management weaknesses expose the Department and its operations to fraud and abuse. For example, the IG reported on serious control weaknesses in the Immigration and Naturalization Service’s multi-million fee collection program at ports of entry into the United States. The IG reported that cashiers could easily steal cash simply by failing to ring it up on cash registers. Furthermore, employees responsible for handling cash were not held accountable for shortages, and managers could not account for cash register tapes documenting thousands of transactions.¹⁶

Improving financial management is particularly important in light of the increase in grant programs administered by the Justice Department, such as the \$8.8 billion COPS program. The IG has identified grant management as another “Top 10” problem at the Department. According to the IG, the Department’s multi-billion dollar grant programs are at high risk of fraud. For example:

- Justice provides State Criminal Alien Assistance Program grants to state and local governments to help defray the cost of incarcerating undocumented criminal aliens convicted of felonies. An IG audit of the program found that the five states reviewed received overpayments for unallowable inmate costs and ineligible inmates. The aggregate cost of these overpayments totaled about \$19.3 million.
- In another case, a former acting police chief was convicted of multiple counts of wire fraud by filing false and misleading documentation to obtain a COPS grant. He hired himself as the principal partner and also hired his wife and daughter. None of them performed any work under the grant. He obtained more than \$100,000 in grant funds, which he spent on personal items such as automobiles and home improvements.¹⁷

Asset forfeiture program

The Justice Department and the Treasury Department operate separate programs to store and dispose of so-called “forfeited assets,” i.e., property such as cars and weapons that law enforcement officers confiscate because they were used in criminal activity. The combined value

¹⁵*Ibid.*, p. 4-5.

¹⁶Department of Justice, Office of Inspector General, “Immigration and Naturalization Service Collection of Fees at Land Border Ports of Entry,” 00-05 (February 2000).

¹⁷Department of Justice, Office of Inspector General, “Top Ten Management Challenges for the Department of Justice” (December 1, 2000), p. 10.

of assets in these two programs is more than \$1 billion. They also hold large amounts of illegal drugs and weapons that have not been assigned monetary values.

GAO has listed management of forfeited assets by the two Departments as a high-risk problem, dating back to 1990.¹⁸ GAO points out that better controls are needed over property seized, primarily illegal drugs and weapons. Also, the two Departments have consistently ignored legislation dating back to 1988, as well as a GAO recommendation dating back to 1991, that called on them to develop a plan to consolidate the management of their separate programs. This would improve the efficiency of the programs and save the taxpayers money. Currently, both Departments maintain separate facilities at the same locations to store the same kinds of property.¹⁹

Staffing

The Department continues to have problems attracting and retaining qualified employees for jobs ranging from Border Patrol agents to information technology professionals. During the last five years, the Immigration and Naturalization Service experienced problems in recruiting, training, and deploying large numbers of new Border Patrol agents. The Border Patrol failed to reach its annual staffing goals for most of those years. For example, it achieved an increase of only 369 new agents in 1999, falling well short of its Congressionally mandated goal of 1,000 new agents.²⁰ The Bureau of Prisons also must continue to address the significant challenge of hiring and training enough correctional officers and other staff to safely and effectively operate their new and expanded facilities.²¹

¹⁸General Accounting Office, "High-Risk Series: An Update," GAO-01-263 (January 2001), p. 46-47.

¹⁹General Accounting Office, "Asset Forfeiture: Historical Perspective on Asset Forfeiture Issues," GAO/T-GGD-96-40 (March 19, 1996), p. 7-9.

²⁰General Accounting Office, "Major Management Challenges and Performance Risks: Department of Justice," GAO-01-250 (January 2001), p. 15.

²¹Department of Justice, Office of Inspector General, "Top Ten Management Challenges for the Department of Justice" (December 1, 2000), p. 10-11.

XI. Department of Labor

We remain concerned about the ease with which these [worker benefit] programs continue to be defrauded by claimants and medical providers, as well as about systemic weaknesses that lead to waste of program funds.

Patricia A. Dalton
Acting Inspector General
United States Department of Labor¹

The Department of Labor is responsible for promoting the welfare and economic security of the nation's workforce and ensuring that workplaces are safe. The Department oversees a wide array of activities that affect more than 100 million workers and more than 10 million employers. These activities are managed through a decentralized agency structure that includes 22 headquarters offices, more than 1,000 field offices, and shared program responsibility with numerous state organizations and as many as 14 federal entities.

The Department must carry out these responsibilities in a rapidly changing environment. Slow workforce growth and increasing retirements by baby boomers, for example, will likely result in tight labor markets continuing in the future. Employers are responding to these changes by seeking more highly skilled workers and creating new types of work arrangements.

The Department of Labor faces a number of systemic and long-standing management problems. On December 1, 2000, Patricia A. Dalton, the Department's Acting IG, provided Senator Fred Thompson, Chairman of the Senate Committee on Governmental Affairs, with an assessment of the most serious management challenges facing the Department. The challenges, which are discussed below, were chosen because they are considered "to be vulnerable to fraud, waste, abuse, and mismanagement:"²

- Effectiveness of the Welfare-to-Work Initiative;
- Quality of program and cost data;
- Security of pension assets;
- Protection of worker benefit funds;
- Stewardship over information technology resources;
- Targeting of the Dislocated Workers Program; and
- Integrity of electronic benefit claims management.

¹Department of Labor, Office of Inspector General, "Semiannual Report to Congress" (March 31, 2000), p. 9.

²Department of Labor, Office of Inspector General, "Top Ten Management Challenges for the Department of Labor (December 1, 2000).

In addition to these systemic problems, other studies have identified cases of either criminal or inappropriate behavior on the part of individuals.

- The former lead accountant and bookkeeper for a center in Seattle, Washington was sentenced last June to imprisonment for two and a half years for embezzling federal funds. The center receives approximately 55 percent of its funding from the Department through grants. An investigation revealed that the accountant issued checks drawn on the center's travel and payroll accounts to himself and members of his family, including his daughter who received approximately \$350,000.³
- Last June, a former claims examiner and former investigator entered a guilty plea to charges of theft of government property for diverting approximately \$161,000 in Federal Employees' Compensation Act funds of a deceased claimant into the investigator's own bank account.⁴

Effectiveness of the Welfare-to-Work Initiative

As part of the national welfare reform initiative, the Welfare-to-Work program was enacted in 1997 to help long-term welfare recipients move into meaningful work. The success of the initiative hinges not only on the effectiveness of the Department's management and the quality of services provided, but also on its ability to capture, report, and respond to the results of its efforts on behalf of eligible individuals.

In 1998 and 1999, audits were conducted of the program's grantees to assess their progress, identify vulnerabilities, and recommend corrective action. Additional audits were done in fiscal year 2000. The IG questioned the capability of two grantees to deliver the program described in their grant applications. The Department has since acted to terminate both grants.

- Problems were identified with the Washington Alliance, including vendor agreements that were awarded without competition; vendor costs and staff salaries that appear unreasonable; and enrollment levels that are lower than those targeted in its performance goals. The identified problems demonstrated that the Alliance was not operating its program according to either the approved grant agreement or the applicable regulations.⁵
- During a survey of the Devereaux Corporation's competitive grant program, it was determined that the Corporation had neither the experience nor past performance record that were presented in the grant application and which formed the basis for the award. In

³Department of Labor, Office of Inspector General, "Semiannual Report to the Congress" (September 30, 2000), p. 36.

⁴*Ibid.*, p. 84.

⁵Department of Labor, Office of Inspector General, "Semiannual Report to the Congress" (September 30, 2000), p. 35.

addition, the approved grant budget included excessive and questionable costs; staff salaries appeared unreasonable; and the Devereaux Corporation incurred questionable transportation and travel costs.⁶

Three years into Welfare-to-Work, it is time to assess the program's effectiveness in preparing participants for lasting employment leading to self-sufficiency. However, the ability to properly measure the program's success is hampered by questions about the consistency and quality of performance data reported by states and other grantees. Based on the early stages of a study, it appears that the grantees are confused about the definitions of the performance information required to be reported; this suggests that data are being reported inconsistently across grantees.⁷

Moreover, the reporting requirements themselves are in a state of flux. Changes enacted in late 1999 eliminated the participant and financial reporting requirements of the original legislation. Instead, the Secretary of Labor, in consultation with the Secretary of Health and Human Services, states, and localities, was instructed to establish requirements for the collection, maintenance, and reporting of this information. The Department originally expected to publish the new reporting requirements early in 2000, but they still have not been finalized.

Quality of Program and Cost Data

Important initiatives are under way to improve the quality of program and cost data, which serve as the basis for determining whether federal programs and operations are achieving their intended results. The Department, however, is limited in its ability to access, or control the quality of, data used to determine the effectiveness of its programs. This includes difficulties associated with ensuring the quality of the data provided by states and other sources, where 90 percent of the Department's budget is actually spent. For example, audits have disclosed weaknesses in the Department's monitoring of the quality of data submitted by grantees and subgrantees. Assuring the reliability of data reported by states is also a problem for the Veterans' Employment and Training Service, which operates most of its programs through the State Employment Security Agencies.⁸ In the employment and training area, it is particularly important to know whether programs have helped individuals to become self-sufficient by obtaining long-term employment.

Security of Pension Assets

⁶Department of Labor, Office of Inspector General, "Post-Award Survey of Devereaux Corporation," 03-00-006-03-386 (May 22, 2000).

⁷Department of Labor, Office of Inspector General, "Top Ten Management Challenges for the Department of Labor" (December 1, 2000).

⁸*Ibid.*

The security of pension assets is a priority of the Department. This includes ensuring that weaknesses, vulnerabilities, and criminal activity are identified and addressed. One area of concern involves private pension plans, which serve as an attractive target to organized crime elements, corrupt pension plan officials, and individuals who influence the investment activity of pension assets. Recently, labor racketeering investigations involving the investment of pension plan monies that are jointly administered by labor union representatives and management representatives have elevated the IG's concern over the security of the assets in this segment of the pension plan universe.⁹

Investigations have uncovered criminal enterprises perpetrated by financial and investment service providers to the nation's pension plans. These investigations have revealed abuses by investment advisors and pension plan administrators who have the opportunity and ability to structure complex financial schemes to conceal their criminal activity. The IG is concerned that abuses by financial investment service providers can result in larger dollar losses because they typically provide investment or financial advice to more than one plan.

Protection of Worker Benefit Funds

The Department administers several programs designed to provide and protect the benefits of workers. They include the Unemployment Insurance Program, the Federal Employees Compensation Act, and the Black Lung Disability Trust Fund. Protection of such benefits is critically important because such programs affect the lives of millions of workers and retirees and involve billions of taxpayer dollars. In March 2000, the IG "identified serious vulnerabilities" within these programs.¹⁰ Examples of waste, fraud, abuse, and mismanagement for each of these programs is presented in the following sections.

Unemployment Insurance Program. The Unemployment Insurance Program provides cash benefits to persons who become unemployed involuntarily. Within this important program, however, a number of schemes have been identified including "fraudulent employer schemes, internal embezzlement schemes, fraudulent interstate claims, and the fraudulent collection of benefits by illegal aliens using counterfeit or unissued Social Security numbers."¹¹ Furthermore, investigations have disclosed that the ability to file electronic and mail claims presents individuals with the opportunity to defraud multiple states from a single location.

In addition, systemic weaknesses pose problems for the program, including loss of contributions due to the inability of states to search for hidden wages by employers who misclassify workers as

⁹*Ibid.*

¹⁰Department of Labor, Office of Inspector General, "Semiannual Report to the Congress" (March 31, 2000), p. 9.

¹¹Department of Labor, Office of Inspector General, "Top Ten Management Challenges for the Department of Labor" (December 1, 2000).

independent contractors, employers who fail to report all wages paid, or employers who misrepresent their claims experience. Examples include:

- A Brooklyn, New York, man collected at least \$68,000 in fraudulent benefits by filing claims using false names and Social Security numbers in New York and New Jersey between November, 1992, and March, 1999.¹²
- A Williamsport, Pennsylvania, man created a false company on the Internet which he then used to file \$188,000 in false claims.¹³
- A Seattle, Washington, woman collected at least \$71,000 in fraudulent Unemployment Insurance benefits by filing claims for benefits against three fake businesses she had created, as well as one genuine company. At the same time, the woman also was collecting \$700 a month in federally-funded childcare assistance based on “employment” at one of the fictitious businesses.¹⁴
- A Fort Myers, Florida, man used a false Social Security number and fabricated multiple fictitious employers in various states to obtain Unemployment Insurance benefits for a seven-year period prior to 2000. At the same time, he received workers compensation benefits from Ohio by claiming an on-the-job injury at his fictitious company, Admiral Sales, Inc. This bogus claim bilked the program for \$113,000 in benefits.¹⁵
- A Pennsylvania man bilked the state’s Unemployment Insurance program by registering a fictitious record company with the state’s Department of Labor and Industry. Then he and two accomplices submitted phony W-2 wage and tax statements and bogus pay stubs from Pot of Gold Records to obtain benefits fraudulently. The trio even deposited a counterfeit benefit check into their bank account. The group collected more than \$300,000 in fraudulent benefits between 1993 and 2000. The ringleader of the group was also found to have passed himself off as a landlord to the Philadelphia Housing Authority in order to obtain fraudulent Section 8 rental assistance payments.¹⁶
- A Las Vegas, Nevada, man illegally collected at least \$230,500 in fraudulent Unemployment Insurance benefits from four different states between September, 1996, and November, 1999. The man established 13 fictitious companies and submitted bogus interstate claims based on false reported wages for 36 fictitious claimants using the names and Social Security numbers of dead people, and then collected the claims by mail from California, Massachusetts, Texas, and Nevada.¹⁷

¹²U.S. Department of Labor, Office of Inspector General, “Semiannual Report to the Congress” (September 30, 2000), p. 50.

¹³*Ibid.*, p. 48.

¹⁴*Ibid.*

¹⁵*Ibid.*, p. 47.

¹⁶*Ibid.*

¹⁷*Ibid.*, p. 46.

Federal Employees' Compensation Act. The Federal Employees' Compensation Act provides compensation and medical care for federal employees who suffer job-related injury, disease, or death. Among the areas where fraud is likely are medical providers who bill the government for services that were not rendered, charge multiple times for the same procedure, bill for non-existent illnesses or injuries, or overcharge for services. In addition, claimants may defraud the program by reporting false injuries, recovering but continuing to claim benefits, or failing to report, or under-reporting, their outside employment income to the program agency.

Some recent examples include:

- A Phoenix, Arizona, letter carrier collected \$87,000 in workers compensation benefits based on a job-related injury to his neck and left arm. At the same time, he failed to report employment as the business advisor and principal investor in Ceramics, Etc., of which his girlfriend was sole proprietor.¹⁸
- A former fire fighter at the Newport, Rhode Island, Naval Air Station collected \$98,000 in workers compensation benefits at the same time he was doing business as Excalibur Maintenance, Inc.¹⁹
- A Glenville, Georgia, man was found to have illegally collected \$111,000 in federal workers compensation benefits based on the claim of an on-the-job injury in 1976. While collecting the benefits, the man earned income operating a family farm.²⁰
- A Wilmington, Delaware, former letter carrier was found to have bilked the federal workers compensation program of \$455,000 over a 23-year period. The man collected the disability benefits at the same time he was employed supervising archeological digs and expeditions and appraising various antique items and Civil War memorabilia for Archeological Excavations, Inc.²¹
- A Parker, Colorado, employee of the Office of Workers Compensation Programs stole approximately \$161,000 in payments by diverting benefits paid to a dead claimant into her own bank account. After the claimant had died in 1995, the case worker changed the designation for electronic funds transfers on his benefit checks to her own bank account.²²
- A Whispering Sands, New Mexico, physician was found to have defrauded workers compensation programs and other insurance entities by submitting false and excessive billings. The doctor made \$23 million in restitution payments as a result of the case.²³

¹⁸*Ibid.*, p. 60.

¹⁹*Ibid.*

²⁰*Ibid.*

²¹*Ibid.*, p. 59.

²²*Ibid.*, p. 85.

²³*Ibid.*, p. 56.

Black Lung Disability Trust Fund. The Department administers the Black Lung Disability Trust Fund to provide disability benefits and medical services to eligible workers in the coal mining industry, when a mine operator cannot be determined liable for providing such benefits.

The IG expressed concern with the escalating indebtedness of the trust fund. This debt results from advances provided to the program, which have become an annual necessity for the trust fund. Currently, the excise taxes are sufficient to pay benefits and administrative costs; however, the trust fund must continue to borrow from the Treasury to pay the interest due on past advances.

Management's annual projections of future receipts and outlays indicate that cumulative borrowings from Treasury could total \$32.3 billion or more by 2040. According to estimates, the excise tax collections by 2040 would cover less than 30 percent of the interest that is accruing and annual advances will exceed \$1.2 billion per year. If current operating conditions continue, the Department has acknowledged that a change in the statutory operating structure of the trust fund will be necessary to meet its obligations.

Also, investigations continue to find fraud within this program both among medical providers who bill for services that are either not provided or not needed and beneficiaries who collect benefits to which they are not entitled. Some examples include the following:

- A Grundy, Virginia, doctor was found to have illegally bilked the Black Lung Trust Fund, Medicare, and Medicaid by routinely prescribing a two week dosage of a pain medication, and then requiring the patient to return at the end of the period for a second unnecessary examination, for which the doctor then billed various medical assistance programs. The doctor paid \$100,000 in restitution for his crimes, as well as losing his medical license.²⁴
- A Lee County, Virginia, doctor affiliated with the Lee County Virginia Community Hospital conspired with a hospital administrator to bilk federal medical assistance programs, including the Black Lung Trust Fund by leasing medical equipment owned by the doctor's company to the hospital at inflated prices, in part to cover the cost of kickback payments made to the hospital administrator. The hospital was bankrupted as a result of their scheme.²⁵

Stewardship over Information Technology Resources

Agencies are required to develop and implement an agency-wide information security program, emphasizing the need for agencies to plan for future information technology needs as well as to analyze their current practices to determine their efficiency and effectiveness.

²⁴*Ibid.*, p. 57.

²⁵*Ibid.*, p. 58.

The Department of Labor currently operates 65 mission-critical information systems. It relies on these systems to monitor and analyze the nation's labor market and economic activities, manage workforce services, and protect and compensate American workers. Past studies have noted increased risks for computer crimes and other interruptions made possible by the Internet and lax internal controls. This work has also shown that the Department's systems have been deficient in the areas of general controls and security. The Department needs to assure that all of its major systems are secure against threats and loss of assets.

Further, the Department has begun its planning for future information technology needs by embarking upon a multi-million dollar systems upgrade. It is paramount for the Department to ensure that this new architecture is implemented in a careful and well thought-out process. The Department needs to ensure that agencies will be able to seamlessly exchange data both within the Department and externally with stakeholders. Clearly this is a much-needed ability. For example:

- An audit of the development of the Pension Welfare Benefits Administration's new Employee Retirement Income Security Act information system identified numerous software errors and miscues in delivering a workable system after a \$2 million investment. As a result of recommendations by the IG, the Pension Welfare Benefits Administration terminated its development effort.²⁶

Targeting of the Dislocated Workers Program

The Department provides retraining and support services to dislocated workers. These services are provided to eligible dislocated workers, including those who have been terminated or laid off, who have received a notice of termination or layoff, who are long-term unemployed or self-employed, or who are displaced homemakers.

The IG conducted an audit in 2000 to determine whether the policies and practices under the program resulted in the serving of the targeted population. It was found that programs were not predominantly serving persons who were victims of plant closings or mass layoffs. It was also found that in 35 percent of the cases, program participants were ineligible, documentation was insufficient to establish their eligibility, or available evidence caused them to question whether they were persons whom Congress intended the program to serve.²⁷ The audit disclosed that the funding formula, which is based on various unemployment measures rather than on the number of dislocated workers in an area, may not distribute funds to where they are most needed. Where funds were allocated to localities with relatively few dislocated workers, some entities relaxed the eligibility criteria in order to spend the available funds. Further, the audit revealed that

²⁶Department of Labor, Office of Inspector General, "Streamlining EFAST and Development of EMS," 17-98-001-12-001 (March 27, 1998).

²⁷Department of Labor, Office of Inspector General, "Dislocated Workers Program in a Growing Economy," 04-00-002-03-340 (June 29, 2000).

program data reported by states was often incomplete or in error.

The Integrity of Benefit Programs Must be Ensured in an Electronic Environment

State Employment Security Agencies administer the Unemployment Insurance and Job Service programs at the state level. The state agencies are currently upgrading and modernizing their operations to offer customers telephone and Internet access to selected services including Unemployment Insurance claims filing, employer registration, employer wage and tax reporting, and appeals filing. In addition, the Federal Employees' Compensation Act program is automating all of its casework. Managers expect to enter all medical bills, records, and payments to create electronic files for all claims. This initiative, if implemented correctly, will enable the program to handle claims with more accuracy and efficiency.

The use of automated procedures and Internet communications has the potential to broaden the range of services, increase hours of operation, and reduce administrative costs. However, there need to be adequate procedures in place to prevent the misuse of these systems. Recent casework has suggested that the use of automated procedures brings with it the potential for unauthorized activity that can contribute to fraud and result in monetary losses for the program.²⁸ Therefore, the Department must utilize a comprehensive, integrated approach of oversight and enforcement to address the increased potential for fraud that accompanies electronic claims and thereby ensure the integrity of the automated programs.

²⁸Department of Labor, Office of Inspector General, "Top Ten Management Challenges for the Department of Labor" (December 1, 2000).

XII. National Aeronautics and Space Administration (NASA)

NASA's aging workforce and facilities are being stretched to their limits as the agency attempts to keep running regular shuttle trips to build the International Space Station while at the same time launching more and more "faster, better, cheaper" missions to discover the origins of the universe. In February, the Aerospace Safety Advisory Panel, a group chartered by Congress to keep an eye on NASA, wrote of the agency's "tendency to 'make do' with job losses and infrastructure deficiencies, relying instead on short-run fixes Yet, with infrastructure, as with workforce, sustained shortfalls in these resources will eventually compromise NASA's ability to carry out its challenging mission.

Government Executive Magazine¹

NASA calls itself "an investment in America's future."² In its strategic plan, NASA compares itself to "explorers, pioneers, and innovators . . . boldly expand[ing] frontiers in air and space to inspire and serve America and to benefit the quality of life on Earth."³ Indeed, from its beginning, NASA's exploration of space has captured the imagination of the American people and the world. NASA has accomplished great scientific and technological feats in air and space, and the technology it has developed has been adapted for many non-aerospace uses by the private sector. NASA remains a leading force in scientific research and in stimulating public interest in aerospace exploration, as well as science and technology in general.

Nonetheless, because of its size and the complexity of its operations, NASA suffers from some substantial management problems. According to NASA's IG, the agency's worst management problems include the following:

- C Mismanagement of information technology and security;
- C Poor management of contracts and major projects; and
- C Poor financial management.

Most Americans still identify NASA as the federal agency responsible for putting a man on the moon, as well as for achieving some of the most spectacular scientific achievements in human history. However, NASA is also well known for great failures.

Information Technology

Like many other projects run by NASA, the procurement and administration of computers and other information technology (IT) are subject to mismanagement. This mismanagement has a

¹Beth Dickey, "NASA: The Few, The Tired," *Government Executive Magazine* (April 1, 2001).

²NASA Strategic Plan (1998).

³*Ibid.*

detrimental effect on other projects planned by NASA. For instance, according to the IG, NASA’s mismanagement of the development of software delayed the launch of the Chandra X-Ray Observatory, a mission that is “intended to observe the universe in four electromagnetic spectrum regions: visible, infrared, gamma ray, and x-ray.” According to the IG, this delay will “increase contract costs by an estimated \$28.8 million.”⁴

NASA’s inability to harness the efficiencies that come from information technology also affect smaller parts of its operations, like the acquisition of office supplies. In an analysis by the IG, NASA centers were found to be paying in some cases up to 600% more for office supplies than they should simply because they weren’t taking advantage of e-commerce—using the Internet to buy what they needed. For instance, NASA’s Marshall Space Flight Center paid just \$1.47 for a pack of AA batteries, while Langley Research Center paid more than ten dollars for the exact same batteries! Goddard Space Flight Center paid just \$17 for a box of ordinary copy paper, but Johnson Space Center paid more than \$57. Office supplies purchased in a year totaled more than \$17 million. The portion of waste clearly fell in the millions. Below is a breakdown of some of the products purchased by NASA facilities and the variation in price they paid, from the highest to the lowest, just because some of them weren’t using the Internet to save money.⁵

Sample of 15 Office Supply Items and the Variation in Price Paid by NASA⁶

Product Description	Lowest Price	Highest Price	Difference
AA Batteries (8/Pack)	\$1.47	\$10.79	634%
Pad of Engineer Computation Paper	\$0.72	\$5.03	599%
AAA Batteries (8/Pack)	\$1.12	\$5.74	413%
3" Binder	\$1.13	\$4.95	338%
Roll of Tape	\$0.59	\$1.69	186%
Mechanical Pencil (12/Box)	\$8.16	\$22.61	177%
Computer Disk (10/Box)	\$2.34	\$5.84	150%
Address Labels for Laser Printer (2000/Box)	\$13.12	\$28.68	119%
Pocket Folders	\$0.44	\$0.88	100%
Toner for Laserjet Printer	\$55.60	\$92.23	66%
Hanging Folder (Box)	\$4.48	\$7.09	58%

⁴National Aeronautics and Space Administration, Office of Inspector General, “Audit of Advanced X-Ray Astrophysics Facility,” IG-99-016 (March 24, 1999).

⁵National Aeronautics and Space Administration, Office of Inspector General, “Electronic Commerce: NASA’s Acquisition of Office Supplies,” IG-00-008 (February 23, 2000).

⁶*Ibid.*

NASA, like most federal agencies, also has difficulty protecting its computers from hackers. According to both GAO and the IG, NASA systems are vulnerable to unauthorized access, and information contained in its computers is not secure. In its most recent semiannual report, NASA's IG wrote:

The host security audits identified vulnerabilities that increase the probability that an intruder could access NASA system and application software, data, and information if network and perimeter controls are successfully circumvented. Examples of such vulnerabilities include inadequate:

- C Security monitoring to identify that an unauthorized user is attempting to access or has obtained access.*
- C Password management.*
- C Protection of critical system directories and files.*
- C Implementation of vendor-supplied security options.*
- C Control over powerful system capabilities that could allow a user to bypass security and auditing controls.⁷*

The IG also found that "NASA did not have security plans for many of its . . . systems and many of its computers that host publicly accessible Web sites." The IG elaborated, "In fact, major elements of one of NASA's five major IT investments did not have security plans, contingency plans, or risk assessments." This means that the agency failed to consider the risks to its systems and thus, hadn't put the right procedures in place to protect its computer systems.

With such a vast amount of sensitive information, NASA should do a better job of protecting itself. But the risk to NASA is not just hypothetical. In several cases, NASA has suffered attacks from outside. For example:

- A juvenile computer hacker known as "skalir" was charged with two counts of computer abuse in the Second Judicial Court, Children's Court Division, State of New Mexico, County of Bernalillo. "Skalir" was charged after allegedly hacking into a NASA government computer system. The computer system was compromised, system files were modified, and illegal accounts were added.⁸
- A juvenile allegedly broke into NASA computer systems located at the Jet Propulsion Laboratory in Pasadena, CA, and the Goddard Space Flight Center in Greenbelt, MD. The youth allegedly broke into an Energy Department computer system located at Sandia National Laboratories in Albuquerque, NM, that same month. The youth allegedly defaced Web pages by altering system files and uploading new files to display images

⁷National Aeronautics and Space Administration, Office of Inspector General, "Semiannual Report to the Congress" (September 30, 2000).

⁸National Aeronautics and Space Administration, Office of Inspector General, "Computer Hacker Charged," 2001-039 (February 14, 2001).

relating to the hacking group “Electronic Souls.”⁹

- Raymond J. Torricelli was charged with gaining unauthorized access to two computers at NASA’s Jet Propulsion Laboratory in Pasadena, California. He also allegedly had unauthorized possession of credit card numbers, user names, and passwords for additional computer systems. As a result of a guilty plea, Torricelli faces a maximum sentence of 27 years in prison and fines totaling \$950,000.¹⁰

These cases exemplify the danger to NASA’s information technology infrastructure. But they pale in comparison to the vulnerabilities that exist throughout NASA. In fact, according to a recent audit by the IG, “the Space Station could be susceptible to receiving unauthorized command and control instructions.”¹¹ Although NASA is attempting to assess the need for stronger authentication requirements, it’s clear they haven’t paid enough attention to managing their information technology and ensuring its security.

Poor Management of Contracts and Major Projects

NASA projects are extremely complex. They require an immense amount of attention to detail. In its work toward the completion of these projects, NASA spends more than \$12 billion annually. Unfortunately, it does not always spend that money in an efficient manner. For example, according to GAO, the initial cost estimate for the International Space Station was \$5.2 billion. The expected completion date was originally 2002. Today, the estimated cost to complete the space station is \$9 billion, and the project is not expected to be complete until 2006. In its most recent analysis of NASA’s management of the International Space Station and other contracts, GAO wrote, “[T]he agency’s contract management function remains a high-risk area.”¹²

According to the IG, even though NASA knows about poor management of the Space Station, it continues to pay exorbitant and undeserved rewards to the contractors. The IG reported that the Boeing Corporation’s estimate of the cost of its work was unrealistically low and that NASA knew this. Despite continued cost overruns and schedule slippages, NASA awarded Boeing \$16

⁹National Aeronautics and Space Administration, Office of Inspector General, “Computer Hacker Arrested for Allegedly Hacking into at Least Three NASA Computer Systems and One Department of Energy Computer System,” 2001-045 (March 12, 2001).

¹⁰National Aeronautics and Space Administration, Office of Inspector General, “Computer Hacker Pleads Guilty,” 2001-018 (December 7, 2000).

¹¹National Aeronautics and Space Administration, Office of Inspector General, “Semiannual Report to the Congress” (September 30, 2000).

¹²General Accounting Office, “Major Management Challenges and Program Risks: National Aeronautics and Space Administration,” GAO-01-258 (January 2001).

million in “unearned incentive fees.”¹³ Although the agency eventually got that money back, the project will continue to suffer from cost overruns and delayed implementation.

In some cases, NASA’s projects fail completely, even after immense effort and great expense. For example:

- The Mars Polar Lander, launched in January 1999, was to be the first-ever landing in the polar regions of Mars. Regrettably, communications were lost as the lander began its entry into the Martian atmosphere on December 3, 1999. Flight controllers spent several weeks searching for the spacecraft to no avail. The lander was equipped with cameras, a robotic arm and instruments to measure the composition of Martian soil. The cost of this failed project was \$120 million.¹⁴ A NASA investigation of potential reasons for the failure found that “one team used English units (e.g., inches, feet and pounds) while the other used metric units for a key spacecraft operation. This information was critical to the maneuvers required to place the spacecraft in the proper Mars orbit.”¹⁵
- The Mars Microprobe Mission, also known as Deep Space 2, was the second deep-space technology-validation mission in NASA’s New Millennium Program. The two Deep Space 2 microprobes hitched a ride to Mars aboard the Mars Polar Lander with the goal of penetrating into the Martian subsurface to detect water ice. Unfortunately, no word was ever received from the probes. Their cost was \$29.6 million.¹⁶
- After spending billions to develop the X-33, a space travelling airplane, NASA decided to cancel the project entirely. As early as 1999, GAO wrote, “because of problems in developing technologies for the X-33, the program will not meet some of its original cost, schedule, and performance objectives.” GAO added, “Costs have increased, the test vehicle’s first flight was delayed by 16 months, and some performance objectives—such as a speed reduction from Mach 15 to Mach 13.8—were reduced.”¹⁷

Without sufficient attention and planning, NASA’s numerous and expensive projects will be subject to delay, cost overruns, and, in the worst case, failure.

¹³National Aeronautics and Space Administration, Office of Inspector General, “Semiannual Report to the Congress” (September 30, 2000).

¹⁴Source: NASA (<http://mars.jpl.nasa.gov/missions/past/polarlander.html>).

¹⁵*Ibid.*

¹⁶*Ibid.*

¹⁷General Accounting Office, “Space Transportation: Progress of the X-33 Reusable Launch Vehicle Program,” GAO/T-NSIAD-99-243 (September 29, 1999).

Financial Management

NASA has received clean opinions on its annual financial statements for seven years in a row. NASA says it can balance its books. However, recent disclosures show that this may not be the case. In fact, last year it was found that NASA made a \$590 million error on its financial statements that went undetected even by the auditors whom NASA had paid to check the agency's books. In a letter to NASA Administrator Dan Goldin, House Science Committee Chairman James Sensenbrenner wrote, "NASA provided a written explanation admitting that these errors were made. This regrettable circumstance brings into question the overall integrity of NASA's financial management system."¹⁸ GAO is currently investigating the extent of discrepancies in NASA's annual financial statements.

Poor financial management is why contracts and projects are consistently over budget and behind schedule. It's why different parts of NASA pay too much for office supplies. It's why improper payments can go undetected, leaving NASA vulnerable to waste, fraud, and abuse. Some of the cases where the perpetrator of fraud was detected include the following:

- The IG found that seven employees of a NASA subcontractor ordered "substantial quantities of building supplies for their personal use and were paid kickbacks by the supplier in return for their orders," which were paid by NASA. These individuals were sentenced on January 9, 2001.¹⁹
- The IG also found one contractor who purchased a home and an automobile with NASA funds.²⁰
- Tracy A. Carpenter, a former NASA employee at Goddard Space Flight Center, allegedly transferred \$148,321 from the NASA Accounting system into her personal account.²¹

These are just a few of the cases ongoing at NASA. Unfortunately, NASA often spends tax dollars for things other than what was intended. According to the IG, NASA management has not ensured that funds have been used for their intended purposes. The IG reviewed 36 expenditures totaling about \$44.8 million. Astonishingly, \$44.7 million may have been charged to the wrong account. According to NASA, many of these expenditures may have been against the law.

¹⁸Letter from Congressman James Sensenbrenner (WI), Chairman, House Science Committee, to NASA Administrator Daniel Goldin (July 6, 2000).

¹⁹National Aeronautics and Space Administration, Office of Inspector General, "Semiannual Report to the Congress" (September 30, 2000).

²⁰*Ibid.*

²¹NASA Office of the Inspector General News Release, "Former NASA Employee Indicted," 2001-033, (February 1, 2001).

XIII. Small Business Administration

[The Small Business Administration] is confronting several major performance and accountability challenges that affect its ability to efficiently deliver services.

David M. Walker
Comptroller General of the United States¹

The U.S. Small Business Administration was established in 1953 to assist small businesses from startup through the many stages of growth. Its two major goals are helping small businesses succeed and helping Americans recover from disasters.

The agency carries out these functions primarily through the following offices: the Office of Capital Access, the Office of Entrepreneurial Development, the Office of Government Contracting and Business Development, and the Office of Disaster Assistance. The Office of Capital Access has several loan programs that assist small businesses, including the so-called Section 7(a) program. The Office of Entrepreneurial Development provides counseling and expertise to new entrepreneurs. The Office of Government Contracting and Business Development administers programs that assist small businesses with federal procurement opportunities. Technical and procurement assistance to eligible businesses are provided through programs that include the Section 8(a) program.

In the wake of hurricanes, floods, earthquakes, wildfires, tornadoes and other physical disasters, the Office of Disaster Assistance is authorized to make both physical disaster loans and economic injury disaster loans. The disaster program is the only program within the agency for entities other than small businesses. As of September 30, 2000, the total loan portfolio was about \$52 billion, of which about \$7 billion was for disaster loans.²

On December 1, 2000, Phyllis K. Fong, the Small Business Administration's IG, provided Senator Thompson, Chairman of the Senate Committee on Governmental Affairs, with an assessment of the most serious management challenges facing the Small Business Administration.³ The challenges, which are discussed below, include the following:

- Information systems for loan monitoring and financial management;
- Information systems security;
- Human capital management strategies;
- Business loan purchase processes;

¹General Accounting Office, "Major Management Challenges and Risks: Small Business Administration," Performance and Accountability Series, GAO-01-260 (January 2001), p. 6.

²*Ibid.*

³Small Business Administration, Office of Inspector General, "Top Ten Management Challenges for the Small Business Administration" (December 1, 2000).

- Lender oversight;
- Rules for 8(a) Business Development; and
- Loan fraud.

Loan monitoring and financial management systems

The Small Business Administration's current system for monitoring loans is not efficient. The agency needs to ensure that its planned systems for loan monitoring, lender oversight, and financial management are developed, integrated, and implemented efficiently and effectively, so that intended objectives are achieved and numerous risks are minimized.

The Small Business Administration's goals depend heavily on new information systems. To achieve these goals, the agency has engaged in a set of systems development and acquisition projects, collectively referred to as the Systems Modernization Initiative. To support its credit programs, the agency is developing the Loan Monitoring System. Another major component is the Joint Accounting and Administrative System, which is intended to address procurement and grants management, human resources, accounting, budgeting, and financial operations and reporting. This multi-million dollar initiative is currently scheduled for completion in 2003.

Under the Loan Monitoring System, information such as loan volume, origination quality, delinquency rates, default rates, and recoveries should be more readily available and accurate, and provide for better analyses. This system should also provide information that will allow the agency to more easily identify lenders with potential problems and provide better oversight of lenders' actions.

The Joint Accounting and Administrative System is intended to help the agency address a number of financial and administrative deficiencies. For example, flaws in the current financial reporting system have been reported as a significant weakness.⁴ The new system should allow for the integration of program and accounting data to provide more timely and accurate financial reports and enhance program analysis. It should also provide for increased accountability over transactions and compliance with the federal financial management system requirements.

Information systems security

The Small Business Administration's programs and activities depend heavily on computerized systems. The agency is engaged in several initiatives, such as paperless loan applications, that will increase its reliance on such systems. While information technology can result in a number of benefits, such as information being processed quickly and communicated almost instantaneously, it also increases the risk of fraud, inappropriate disclosure of sensitive data, and disruption of critical operations and services.

⁴*Ibid.*

GAO has designated information security as a government-wide high risk area because of growing evidence indicating that controls over computerized operations are not effective and risks are increasing. An audit disclosed that while the Small Business Administration has made significant progress in this area, improvements are still needed in the areas of entity-wide security program and planning, access controls, application software development and program change controls, system software, segregation of duties, and service continuity.⁵

Human capital management strategies

Managing and investing in human capital has emerged as an important issue throughout the federal government. Human capital management is especially important for the Small Business Administration. Over the last decade, the agency has made major changes in its delivery of goods and services. For example, the agency now uses public-private partnerships to perform the loan origination, servicing, and liquidation functions that federal personnel formerly handled. At the same time, the agency has decreased its workforce by more than 20 percent.⁶

While the agency has taken steps to better manage its human capital activities, including activities in workforce planning, leadership, talent development, and fostering a performance culture to meet this challenge, more remains to be done.

Business loan purchase processes

A 1997 report on business loan guaranty purchases found that the Small Business Administration did not consistently apply its procedures when purchasing guaranties. The audit found that 29% of the decisions either were not supported by sufficient documentation or resulted in claims being paid when they should have been denied or reduced. A statistical projection of the audit results indicated that an estimated \$102.9 million in purchases was not supported by sufficient documentation, and guaranties totaling up to \$16.2 million should not have been honored.

Audit reports issued in FY 2000 on four early defaulted loans showed that lenders did not originate the loans in accordance with the agency's requirements or prudent lending practices. Two loan guarantees were purchased even though the lenders did not properly evaluate discrepancies in financial information or adequately secure the loan, or had already reimbursed the borrower for ineligible expenses. The audits also showed that the lender for the two other loans did not properly evaluate cash flow or obtain support showing that the loan proceeds were used for authorized purposes. The lender withdrew his request for a guaranty purchase on one of the loans and the other loan is being reviewed.⁷

⁵*Ibid.*

⁶*Ibid.*

⁷*Ibid.*

Lender oversight

Private lenders are performing an increasing percentage of the loan underwriting, servicing, and liquidation functions that were previously performed by Small Business Administration staff. To ensure compliance with requirements, the agency should continue to refine its newly designed lender oversight program, increase its ability to identify lenders needing improvements in their performance, and ensure that borrowers comply with the terms of the loan agreement.

An audit on Section 7(a) loan processing issued in 1999 found that “lenders did not consistently comply with 22 key processing procedures. Of 240 loans reviewed, 170 procedural problems were noted for 118 loans. The deficiencies involved ineligible purposes of loans, lack of repayment ability, and use of proceeds for an unapproved or ineligible purpose. The audit results showed that 26 loans . . . totaling \$7 million had deficiencies that could cause the agency to question part or all of the guaranty if a purchase request were received from a lender. Four of five deficiencies with requirements occurred when the agency had limited or no oversight of lenders’ processing and disbursing actions. According to agency guidelines in place at the time, district offices should have visited each lender annually unless a waiver was justified. Out of 147 lenders in our sample, only 44 . . . received field visits by district office personnel during fiscal years 1996 and 1997.”⁸

In 1998, GAO reported that in the five district offices they visited, the agency had not performed an on-site review of about 96 percent of the lenders in the past 5 years. In some cases, there was no evidence that lenders who had issued the agency’s loans for 25 or more years had ever received an on-site review. GAO concluded that the agency had no systematic means, without conducting periodic on-site reviews, to ensure that lenders’ actions did not increase the risk of loss to the agency.⁹

Lender monitoring is particularly important as the agency moves from direct involvement in loan approvals to increased reliance on participating lenders to perform loan origination, servicing, and liquidation. Yet, the agency does not have a comprehensive system to capture and summarize performance measurement data for lender and loan monitoring. Information on loan volume, loan origination, delinquency rates, default rates, and liquidation is not readily available. Comprehensive reporting and analysis of such information in a consistent and integrated manner would allow the agency to better identify lenders with potential problems and provide appropriate oversight.

Rules for 8(a) Business Development

This program is intended to be used exclusively for business development purposes to help small

⁸*Ibid.*

⁹*Ibid.*

businesses owned by “socially” and “economically” disadvantaged persons compete on an equal basis. To ensure that its participants benefit from the business development aspects of the program, the agency restricts the amount of a federal contract that may be performed by a non-participant. IG audits, however, have found that many non-8(a) companies benefit from the program. Audits, especially involving computer parts, have found instances where 80 percent or more of the contract costs are realized by large computer manufacturers.¹⁰

Loan fraud

Obtaining additional background information from loan agents and business loan borrowers could reduce the incidence of fraudulent loans. While the fraud identified thus far is a small percentage of the total portfolio, the dollar amounts are significant.

Loan Agents: Loan agents provide referral and loan application services to prospective borrowers or lenders for a fee. Some agents have been involved in a variety of fraudulent schemes, such as submitting false tax returns or other financial data, using fictitious names on forms, and conspiring with borrowers to submit false loan packages.¹¹ These schemes, which have been copied from one fraudulent agent to another, have resulted in borrower defaults that in turn caused loan purchases by the Small Business Administration and, ultimately, losses to the taxpayers.

Criminal investigations have been initiated involving approximately \$90 million in loan applications handled by 18 loan agents over the last five years. Allegations involving loan agents continue to be reported.¹² Also, because the Internet allows ready access to a national audience, dishonest loan agents can expand the scope of their fraudulent activities.

The agency and the IG have agreed that it would be helpful if a database linking loans to individual agents is maintained. When the agency identifies a circumstance of potential fraud, it would be able to identify other loans packaged by the same individual and thus would be able to more readily locate other loans where similar fraud may have occurred.

Borrowers in Business Loan Programs: Audits have shown that borrowers who do not disclose their criminal histories have higher rates of default on loans than those who either disclose their records or have no criminal histories.¹³ The agency performs name checks to help identify individuals with criminal histories but does not have authority to routinely perform full criminal

¹⁰*Ibid.*

¹¹*Ibid.*

¹²*Ibid.*

¹³*Ibid.*

background checks. Consequently, the agency cannot always identify individuals with criminal histories and this may result in higher losses.

Past studies have revealed problems with the accuracy of the criminal history information provided by loan applicants. To determine the extent of the problem, the IG initiated several investigations. The first showed that almost 12 percent of the defaulted loans involved borrowers who failed to disclose their criminal records. A number of audits have also documented misrepresentation by borrowers of their criminal histories. An audit of 240 loans found that eight percent of the 429 borrowers failed to disclose their criminal records.¹⁴ For example:

*The owner of a now defunct photo studio was indicted in August 2000 charging that he falsely stated in an application for a guaranteed loan that he was a U.S. citizen and that he did not have any prior criminal convictions. In fact, he had been convicted of smuggling and was a federal fugitive wanted on a parole warrant. Further, records showed that he was not a citizen, but rather a legal resident alien facing deportation.*¹⁵

Most recently, an audit by the IG revealed “that, on average, nearly 1 out of every 11 loans guaranteed by SBA contained a false statement by one or more borrowers. The sample further revealed that loans in which applicants lie about their criminal record are 1.3 times as likely to become non-performing and result in the purchase of the guaranty by SBA.”¹⁶

¹⁴*Ibid.*

¹⁵Small Business Administration, Office of Inspector General, “Semiannual Report to the Congress” (September 30, 2000).

¹⁶Small Business Administration, Office of Inspector General, “Applicant Character Verification in SBA’s Business Loan Program” (April 2001).

XIV. Department of State

Essential to coming to terms with the new world is being able to ensure that our foreign policy apparatus and people are fully up to the task. And here is the problem: a good portion of the apparatus, especially the Department of State, simply falls short in mission, organization, and skills relative to what is needed to navigate sensibly through the new international universe.

The Honorable Frank C. Carlucci, Chairman
Report of the Task Force on State Department Reform¹

The State Department is the diplomatic arm of the federal government and works to advance the United States' objectives throughout the world—greater freedom, more security and more prosperity. Among its key duties, the State Department promotes peace and stability in regions of vital interest to the United States; works to create jobs at home by opening markets abroad; helps developing nations establish stable economic environments that provide investment and export opportunities for the United States; and brings nations together to address global problems such as cross-border pollution, the spread of communicable diseases, terrorism, nuclear smuggling, and humanitarian crises.

The State Department manages the nation's diplomatic relations with about 180 countries, and also maintains relations with many international organizations. Thus, there are more than 250 offices under the management of the State Department throughout the world. In the United States, about 5,000 professional, technical, and administrative civil service employees work alongside foreign service officers serving at home.

The State Department suffers some of the worst management problems in government. According to the State Department IG, those problems include the following:

- C Worldwide security;
- C Financial management;
- C Human resources; and
- C Plan Columbia.

In February 2001, the Council on Foreign Relations and the Center for Strategic and International Studies prepared a report on the state of management at the Department of State and the effect that mismanagement has on American diplomacy. In an introductory memorandum to President Bush, the task force wrote, "The apparatus of U.S. foreign policy making and implementation that you have inherited is in a state of serious disrepair. The Department of State suffers from long-standing mismanagement, antiquated equipment, and insecure facilities."² This statement is

¹Council on Foreign Relations and the Center for Strategic and International Studies, "State Department Reform," Independent Task Force Report (February 2001).

²*Ibid.*

supported by innumerable reports and investigations completed by both the State Department IG and the GAO.

Worldwide Security

An increased focus on the security of State Department facilities in the United States and abroad is the result of the 1998 bombings of the embassies in Nairobi, Kenya and Dar es Salaam, Tanzania. Recent lapses in security at State Department headquarters—the theft of a laptop computer containing classified information and the discovery of “bugs” near the Secretary of State’s office—have also heightened attention to the safety and security of U.S. facilities everywhere. A number of reports have recommended substantial security upgrades. Notwithstanding this renewed attention, however, the task force report states:

The Department of State’s infrastructure, both overseas and at home, is dilapidated and insecure. Overseas facilities, including embassy buildings, are in a serious state of disrepair. They frequently do not meet [safety] standards. Nearly 25 percent of all posts are seriously overcrowded. A total of 88 percent of all embassies do not fulfill established security standards, and many require major security upgrades. U.S. personnel stationed overseas cannot be expected to fulfill their missions effectively if they must operate in shabby and insecure facilities.³

The IG shares the concerns expressed in the task force report. In a recent letter to the Governmental Affairs Committee, the IG wrote:

A June 2000 IG report found that none of the 42 embassies evaluated met all of the physical security standards. Actions have been taken or are underway to correct those items that the Department can quickly fix, such as improving the local guard service, lighting or alarms at the chancery. A program of sustained capital investment is essential to ensure the safety of the diplomatic infrastructure in the future. However, such a program will not immediately alter the circumstances of personnel overseas.⁴

Some of the specific instances of security vulnerabilities uncovered by the IG include the following:

- Even after suffering major terrorist attacks and receiving Department resources to upgrade facilities, the IG testified before Congress that “both interim facilities still faced problems at the time of our May 1999 security evaluation. Embassy Dar es Salaam lacked sufficient emergency power for security systems such as exterior security lights,

³*Ibid.*

⁴Department of State, Office of Inspector General, “Top Ten Management Challenges for the State Department” (December 15, 2000).

alarms, and vehicle barriers. Embassy Nairobi needed to reduce the risk of exposure presented by the placement of large glass windows in the front of the interim chancery building and provide a secondary exit point from the compound.”⁵

- International Broadcasting Bureaus at Germany and Prague had “numerous physical and procedural security deficiencies.” In Germany, the International Broadcasting Bureau’s tower was easily accessible in an open field. In Prague, the Radio Free Europe/Radio Liberty office building “lacks setback and is situated between two busy streets.”⁶
- Although the Department provided \$118.5 million to establish an emergency and evacuation radio program, the IG found that “at the posts visited, the installation of the [radio] equipment did not necessarily translate into an operating emergency radio network.” The IG continued, “Post officials were often unfamiliar with how to use the radio equipment, and new emergency and evacuation procedures incorporating the new equipment had not yet been put in place.”⁷

As with physical security, the State Department suffers from a major inability to protect classified information from unauthorized disclosure. In March 1998, Department officials shut down its computer systems after investigators found data indicating that an unauthorized person had used computers at two undisclosed overseas posts. As a result of this October 1997 intrusion, the two posts were limited in their access to the network, which forced the State Department to circulate delicate information on paper via courier.⁸

According to the task force report, State Department communications and technology equipment are so outdated that personnel in some facilities cannot e-mail each other. Most overseas posts either operate on obsolete classified systems or have no classified connection to the rest of the government.⁹ In addition, GAO investigators, with assistance from a major accounting firm, succeeded in breaking into State networks by dialing in from modems. The investigators also thwarted building security and walked into areas where there were unattended computers and servers. A user identification and password were taped to one computer. Once inside State’s networks, GAO investigators reported, they “were able to access sensitive information. In addition, [they] could have performed system administration actions that would have allowed

⁵Statement of Jacquelyn L. Williams-Bridgers, State Department Inspector General, before the House Committee on International Relations (May 17, 2000).

⁶*Ibid.*

⁷*Ibid.*

⁸“State Dept. Computers Vulnerable,” *Government Executive Magazine* (March 24, 1998).

⁹Brian Friel, “Council Urges Overhaul of State Department Management,” *Government Executive Magazine* (February 14, 2001).

[them] to download, delete and modify these data, add new data, shut down servers, and monitor network traffic.” The systems that GAO penetrated held performance appraisals, international financial data, travel arrangements, e-mail, and passwords.¹⁰

Financial Management

Although the State Department got a clean opinion on its most recent financial statements—meaning it could balance its books—financial management at the Department is not good. The Department cannot produce timely, accurate, and reliable financial information on a regular basis. The Department accounts for over \$5 billion in annual appropriations and over \$20 billion in assets. However, at any point in time, the State Department does not know how much its programs cost, how much money it has, or to whom it owes money. According to the IG, despite progress made by the State Department, “there are concerns with: (1) the security of the domestic mainframe computers and the Paris Accounting and Disbursing System; (2) the inadequacy of internal controls over the management of unliquidated obligations, and the inadequacy of the Department’s financial and accounting system, which is both an internal control weakness and an issue of noncompliance with several laws and regulations; and (3) overseas regional accounting and disbursing systems.”¹¹

In its audit of the State Department’s financial statements, the firm of Leonard G. Birnbaum and Co. highlighted a number of problems with the Department’s financial management.¹² Those problems include the following:

- “[I]nformation system networks for domestic operations are vulnerable to unauthorized access. Consequently, other systems, including the Department’s financial management systems, which process data using these networks, may also be vulnerable.”
- In some cases, the Department could not reconcile its balances with the Department of the Treasury, which keeps a record of funds available to the State Department. There was a difference of \$162 million between what Treasury thought the State Department had available and what the State Department thought it had available.
- State Department records indicate that it owes \$3.5 million on past orders. However, according to the auditor’s report, much of that is for items that were ordered but never delivered.

¹⁰General Accounting Office, “Computer Security: Pervasive Serious Weaknesses Jeopardize State Department Operations,” AIMD-98-145, May 19, 1998.

¹¹Letter from State Department of Inspector General Jacquelyn L. Williams-Bridgers to Chairman, Senate Committee on Governmental Affairs (December 15, 2000).

¹²Leonard G. Birnbaum & Company, Certified Public Accountants, “Independent Auditors Report: Department of State” (March 1, 2001).

Because of its financial mismanagement, the State Department leaves itself open to fraud and waste. In some cases, the Department catches people who are attempting to defraud it. In many others, however, waste, fraud, and abuse go undetected. Some of the reports made by the IG include the following:

- A State Department employee submitted and received payment for fraudulent claims in excess of \$29,000.¹³
- A State Department contractor billed the U.S. Government \$92,538 for insurance premiums on a policy that did not exist. The contractor had received approval to obtain the policy but never obtained it.¹⁴
- The spouse of a former Ambassador submitted a false voucher for reimbursement of \$1,637 for damage to items included in a shipment of household belongings. The items the spouse claimed were damaged had been purchased for an amount significantly less than the value that the spouse claimed they were worth.¹⁵
- The International Institute of Wisconsin spent \$46,626 in federal grant money on airfare for individuals who did not participate in its programs, on “excess working meals,” on an “unreasonable amount of tickets for sporting events,” and on unsupported salaries and benefits. For example, the Institute used grant funding to purchase \$375 of alcohol (which is expressly prohibited), 30 tickets to a Milwaukee Bucks game, and 50 tickets to a Milwaukee Brewers game for ten program participants, and it inappropriately distributed many of the tickets to non-participants of the exchange program. Further, at one dinner for twelve program participants, the Institute also inappropriately paid for the meals of 68 additional “guests.”¹⁶

Human Resources

Like many federal agencies, the State Department has difficulty hiring and retaining the people it needs to achieve its mission. According to the task force report:

The Department of State’s human resource practices and administrative policies are dysfunctional. The department’s “up-and-out” promotion system is having the unintended effect of forcing qualified personnel out of the service. Its antiquated recruitment process is unable to meet the department’s workforce needs in both number

¹³Department of State, Office of Inspector General, “Semiannual Report for October 1, 1999 to March 31, 2000” (April 28, 2000).

¹⁴*Ibid.*

¹⁵*Ibid.*

¹⁶*Ibid.*

*and skill. The department's lack of professional training opportunities for its personnel, its inattention to the family needs of its overseas personnel, and its inflexible grievance system have become major incentives for employees to seek work elsewhere.*¹⁷

The President's most recent budget blueprint made the same point:

*Current personnel policies and workforce planning threaten the department's ability to recruit and retain the highest possible caliber workforce. The Department of State will create and implement policies to ensure that it recruits, hires, and retains foreign and civil service officers with the right skills needed to fulfill the Department's strategic and performance goals.*¹⁸

Plan Columbia

According to the State Department's "Narcotics Control Report," Plan Columbia is an integrated strategy focusing on the peace process, the economy, the counternarcotics strategy, justice reform and human rights protection, and democratization and social development in Columbia. Its \$1.3 billion price tag supplements ongoing U.S. counternarcotics programs totaling \$330 million that were in place before Plan Columbia was initiated. Under Plan Colombia, the U.S. is supposed to support justice sector reform and alternative development projects and will provide equipment, training, and technical assistance to the Colombian antinarcotics police and the military to increase their capability to eradicate illicit coca and opium poppy cultivation and to conduct interdiction operations. According to the State Department IG, however, Plan Columbia "has had little measurable impact." In its monthly report, the IG wrote the following:

*Despite spending over \$100 million on the increased [drug] eradication efforts during FY 1997-99, the results of the spray program are discouraging. Although the data indicates that the spray program has had the effect of moving cultivation from one region to another, it is uncertain whether the current program has decreased the supply of drugs from Colombia. Furthermore, the [State] Department's efforts have had little measurable impact on the availability of drugs in the United States.*¹⁹

GAO has also said that Plan Columbia "will take years to produce results." Despite U.S. and Colombian efforts, the illegal narcotics threat from Colombia continues to grow and become more complex. Although U.S.-provided assistance has enhanced Colombian counter-narcotics capabilities, it has sometimes been of limited utility because of long-standing problems in planning and implementing assistance. For example, helicopters that State provided to the

¹⁷Council on Foreign Relations and the Center for Strategic and International Studies, "State Department Reform," Independent Task Force Report (February 2001).

¹⁸Brian Friel, "State Department to Cut Middle Management," *Government Executive Magazine* (March 1, 2001).

¹⁹Department of State, Office of Inspector General, "Monthly Report" (July 2000) (Available at [HTTP://oig.state.gov/pdf/july00.pdf](http://oig.state.gov/pdf/july00.pdf)).

National Police and the military lacked sufficient spare parts and adequately trained personnel to operate and maintain them for conducting counter-narcotics operations. In addition, the Colombian National Police, which has a questionable history on human rights, has not always documented its use of counter-narcotics assistance, and U.S.-provided helicopters and fuel have been diverted for purposes other than counter-narcotics missions.

XV. Department of Transportation

I . . . don't have to explain the problems or the challenges that lie ahead for our transportation sectors. I am sure that you are all fully aware of our crumbling infrastructure and the costly, time-consuming gridlock that we face every day as we attempt to move about this country.

**Congressman Don Young
Chairman
House Committee on Transportation
and Infrastructure¹**

According to the Department of Transportation's annual performance report, in the year 2000 Americans traveled 2.6 trillion miles on America's highways in their 215 million vehicles. They traveled in the air for 17.6 million hours. And they get around the nation's waterways in their 12.3 million recreational watercraft.² It is the Department of Transportation's responsibility to ensure that the nation's air, sea and highway travel systems are safe and reliable.

The Department of Transportation accomplishes its mission with almost \$60 billion in tax dollars. It manages ten different organizations, including the Federal Aviation Administration, the Federal Highway Administration, the Federal Railroad Administration, and the United States Coast Guard. The Department employs more than 1,000,000 people and is considered one of the best managed agencies in the federal government. Nevertheless, like most federal agencies, the Department suffers significant waste, fraud, and abuse.

According to GAO and the Department's IG, the Department of Transportation suffers from the following major problems:

- Poor attention to transportation safety;
- Airline flight delays and cancellations;
- Oversight of major highway and airport projects;
- Poor computer security; and
- Insufficient financial accountability.

Poor Attention to Transportation Safety

As this report makes clear, the waste of taxpayer dollars is an epidemic in the federal government. However, far more critical is the safety of the citizens. In the case of air travel, it is the federal government's responsibility to maintain the safety of the skies in which airplanes fly.

¹Statement of the Honorable Don Young, Chairman, House Committee on Transportation and Infrastructure regarding Department of Transportation (DOT) Inspector General report on airline customer service. (February 7, 2001).

²Secretary of Transportation, "Leading the Way to Transportation Excellence in the 21st Century" (May 2000).

Unfortunately, recent evidence shows that American skies aren't getting safer, they're getting less so.

According to the IG's most recent semiannual report, the risk of airplane runway collisions is increasing. The number of near misses on the ground increased 34%, from 230 in 1995 to 321 in 1999. Operational errors by air traffic controllers, which the IG describes as letting planes get too close to each other in the air, increased 51%, from 764 in 1996 to 1154 in 1999.³ Operational errors and near-misses are not acceptable in air travel, and an increase should not be tolerated.

Unfortunately, the Department isn't doing enough about it. According to a recent report by the IG, "[the Federal Aviation Administration] must approach reducing operational errors with a sense of urgency."⁴ That report described the need to do better:

While operational errors, which occur mostly in midair, can pose a serious safety risk, the true extent of the safety risk remains unknown because [the Federal Aviation Administration] does not determine the severity of every incident. For example, the severity of operational errors can vary from an incident that does not pose an immediate safety threat, such as when two airplanes are headed in the same direction with 4 miles of separation, to an incident that is only seconds away from a head-on-collision.⁵

But these incidents are not hypothetical. In fact, the IG's report details specific cases where operational errors put airline passengers at direct risk of a catastrophic accident. For example:

- In July 1999, an operational error occurred over Atlanta when one airplane, at an altitude of 23,400 feet, came within approximately 1200 feet laterally and 400 feet vertically of another airplane. A collision was avoided only after the crew took evasive action as a result of an on-board alarm system.⁶
- In April 2000, an operational error occurred when an air traffic controller allowed two jet airliners to "lose separation" and approach each other head on at 39,000 feet. According to the IG, the planes were "less than 20 seconds from a midair collision." Again, the crews took evasive action as a result of an on-board alarm system.⁷

³Department of Transportation, Office of Inspector General, "Semiannual Report to the Congress" (September 30, 2000).

⁴Department of Transportation, Office of Inspector General, "Actions to Reduce Operational Errors and Deviations Have Not Been Effective," AV-2001-011 (December 15, 2000).

⁵*Ibid.*

⁶*Ibid.*

⁷*Ibid.*

- The IG's report recounts one instance in Philadelphia where a military cargo plane came within 100 feet another airplane, and another instance in Los Angeles where a commercial cargo plane came within 200 feet of colliding with another airplane.⁸

Unfortunately, air travel is not the only place the Department of Transportation has a problem with safety. Of the 100 most dangerous federal work sites of 1999, 5 are located at Department of Transportation facilities.⁹ And a recent report by the IG shows that the U.S. Coast Guard doesn't know how many lives it saves. According to the IG, "The U.S. Coast Guard is using inaccurate data to measure its performance in reducing recreational boating fatalities, our audit found. The Coast Guard also has not established criteria for monitoring the effectiveness of state recreational boat safety programs. . . ." ¹⁰

Airline Flight Delays and Cancellations

In addition to serious threats to passenger safety, improvement is needed in the timeliness and reliability of air travel. According to the Federal Aviation Administration itself, flight delays have increased 58% since 1999 (from 236,802 to 374,116). The number of times passengers had to sit on the runway for more than an hour increased 130% since 1995. And because the agency doesn't measure flight delays correctly, the IG reports that the "actual extent of delays is much greater."¹¹ In addition to frustrating the traveling public, delays to commercial flights cost airlines more than \$3 billion a year.¹²

Unfortunately, according to the agency's IG, the Department can't get figure out why the delays are happening in the first place. The IG wrote recently:

The Air Transport Association, for example, blames [the Federal Aviation Administration] and weather for most delays. In contrast, the Federal Aviation Administration points to weather and flight volumes as the main factors. The lack of consistent and complete causal data has only fueled this debate, with no one system

⁸*Ibid.*

⁹Katy Saldarini, "The 100 most dangerous federal work sites," *Government Executive Magazine* (September 28, 1999).

¹⁰Department of Transportation, Office of Inspector General, "Semiannual Report to the Congress" (September 30, 2000), p. 25.

¹¹Department of Transportation, Office of Inspector General, "Air Carrier Flight Delays and Cancellations," CR-2000-112, (July 25, 2000).

¹²*Ibid.*

*possessing a full picture of the causes of flight delays and cancellations.*¹³

Notwithstanding the confusion about the causes of delays and cancellations, the Transportation IG has concluded that, in addition to the weather, five factors contribute to flight delays and cancellations: increased number of flights, air carrier scheduling practices, increased use of regional jets, the practice of allowing planes to land before a gate becomes available, and equipment failures and management practices of the Federal Aviation Administration.

Oversight of Major Highway and Airport Projects

One of the federal government's worst managed construction projects is in Boston. According to the IG, Boston's Central Artery — the so-called "Big Dig" — is the most expensive infrastructure project in the nation's history. One expert called it "the greatest public works scandal of modern times."¹⁴ Unfortunately, its cost continues to rise and is now estimated at \$13.6 billion — an increase of more than five times the original estimate of \$2.6 billion. The IG has found that project managers have failed to disclose cost trends in finance plans and manipulated data to prevent detection, with the most recent finance plan understating construction costs by almost \$1 billion.¹⁵ And the IG has reported additional problems with that project:

- According to the IG, the Massachusetts Turnpike Authority's lack of diligence has directly resulted in \$1.4 billion in additional costs for the Boston Central Artery project.¹⁶
- The Massachusetts Turnpike Authority is purchasing \$300 bed springs for residents whose sleep is disturbed by ongoing Boston Central Artery project construction.¹⁷

Boston's Central Artery, despite its reputation as the worst managed highway project in the nation's history, is not the only case where the Department of Transportation mismanaged a project. Examples abound:

- According to the IG, the cost of New York City's redevelopment of Penn Station has risen to \$768 million—more than twice the original estimate. And it's currently

¹³Department of Transportation, Office of Inspector General, "Air Carrier Flight Delays and Cancellations," CR-2000-112 (July 25, 2000).

¹⁴Timothy B. Clark, "Overlooking Oversight," *Government Executive Magazine* (April 2001).

¹⁵Department of Transportation, Office of Inspector General, "October 2000 Finance Plan for the Central Artery/Tunnel Project Boston, Massachusetts," IN-2001-009 (November 29, 2000).

¹⁶*Ibid.*

¹⁷"The Fleecing of America," *ABC News* (November 2000).

scheduled to be completed in 2005, 6 years later than planned. According to those who plan to use the station, it will need more than \$800 million in safety improvements.¹⁸

- It is unclear when the FAA's new satellite-based navigation system (Wide Area Augmentation System) will be up and running. But the cost of that system has grown from \$508 million in 1994 to \$2.9 billion in 2001.¹⁹

The prospects for improvement are not good. In its recent analysis of the entire Department, GAO wrote:

Over the years, many large-dollar highway and transit projects have incurred cost increases and schedule delays. From 1998 through 2003, [Transportation] is expected to provide at least \$198 billion for highway and transit projects through programs financed largely from the Highway Trust Fund. . . . [The Federal Transit Authority] may not have the resources it needs after fiscal year 2001 to adequately oversee the significant number of new transit projects requiring oversight . . . ”²⁰

Poor Computer Security

As at many other federal agencies, the security of information contained in the Department's computers is at risk. As of September 2000, the IG had identified several computer system weaknesses and vulnerabilities at the Department:

- Department computers were accessible by unauthorized users. The IG gained unauthorized access from the Internet to about 270 computers located within the Department's private networks.²¹
- The Department's computers were vulnerable to insider attack—another type of threat. The IG found approximately 900 computers located throughout Transportation headquarters that could be accessed by unauthorized insiders, such as employees, contractors, and grantees. In a previous audit, the IG identified employees who had

¹⁸Department of Transportation, Office of Inspector General, "Pennsylvania Station Redevelopment Project," RT- 2000-081 (April 19, 2001).

¹⁹Department of Transportation, Office of Inspector General, "Key Safety, Modernization, and Financial Issues," AV-2000-072 (April 11, 2000).

²⁰General Accounting Office, "Major Management Challenges and Program Risks: Department of Transportation," GAO-01-253 (January 2001).

²¹Department of Transportation, Office of Inspector General, "Report on Headquarters Computer Network Security," FI-2000-124 (September 24, 2000).

embezzled funds through stolen passwords, in one case as much as \$600,000.²²

- Internet users were able to bypass the Department's "firewall" security and gain access to the Department's private network because 13 public web servers were inappropriately placed on Transportation's private networks.²³
- The Department's Web sites were vulnerable to attack. Transportation has about 240 Web servers for public access through its Home Page. Of the 119 Web servers reviewed by the IG, 41 were rated as highly vulnerable.²⁴

But the Department of Transportation's computer security vulnerabilities are not limited to its headquarters. The IG also found major computer security problems at the Federal Transit Administration. According to the IG:

- The Federal Transit Administration maintained passwords that should have expiration dates but did not, and it allowed unlimited guesses at passwords.²⁵
- Computer rooms were not secure.
- Appropriate background checks for the Federal Transit Administration and contractor employees were not performed.²⁶

Poor Financial Accountability

Unfortunately, the Department of Transportation was unable to balance its books this year. Because of poor financial management at the Federal Aviation Administration, Transportation's management of federal dollars remains a major problem. According to GAO, "[S]ystems deficiencies affected [the Department's] ability to prepare its financial statements and account for liabilities."²⁷

To assess whether the Department was adequately fulfilling its financial responsibilities, the IG

²²*Ibid.*

²³*Ibid.*

²⁴*Ibid.*

²⁵Department of Transportation, Office of Inspector General, "Computer Security Controls of Financial Management System," FE-2000-098 (May 23, 2000).

²⁶*Ibid.*

²⁷General Accounting Office, "Major Management Challenges and Program Risks: Department of Transportation," GAO-01-253 (January 2001).

audited 40 separate contracts. The IG found that:

- Twenty-nine contracts, totaling about \$62 million, were paid without making certain that the payments made by the Department were allowed. Of the 13 contracts, over \$3 million of the sample, 11 were not audited as required. After the IG audited one of the contracts, \$62,000 was returned to Transportation.²⁸
- The rates at which contractors were billing the Department were not appropriately adjusted for 21 of the 40 contracts totaling \$25 million. In some cases, this resulted in overbilling. For example, for one contract in which rates were not properly reviewed and adjusted, the contractor had to return about \$10,000 of overbilled costs.²⁹
- Of the 40 contracts examined, 8 of them, totaling about \$5 million, had little oversight throughout the life of the contracts.³⁰
- The IG found that “[the Department] did not close contracts in a timely manner, resulting in funds remaining [on the books] for as long as 12 years. At least \$35.4 million no longer represented valid liabilities.”³¹
- The Federal Aviation Administration incorrectly paid about \$63 million annually in overhead cost because the cost accounting system did not appropriately account for overhead costs.³²

Of the different organizations within Transportation, the Federal Aviation Administration is a particular problem. According to GAO, which put the Federal Aviation Administration’s financial management on its list of areas of the federal government most susceptible to waste, fraud, and abuse, “[The Department’s] financial management weaknesses have been particularly troublesome at [the Federal Aviation Administration] because of their longstanding nature and the agency’s slow progress in resolving them.” GAO continued, “Until [the Federal Aviation Administration] has financial and management systems and related procedures and controls that provide reliable information, the agency will continue to be at high risk of waste, fraud, abuse,

²⁸Department of Transportation, Office of Inspector General, “Closeout and Payment Processes for Cost-Reimbursable Contracts,” FI-2001-018 (January 23, 2001).

²⁹*Ibid.*

³⁰*Ibid.*

³¹Department of Transportation, Office of Inspector General, “Closeout and Payment Processes for Cost-Reimbursable Contracts,” FI-2001-018 (January 23, 2001), p. 2.

³²Department of Transportation, Office of Inspector General, “Report on Design of the Cost Accounting System for Research and Acquisitions,” FI-2001-013 (December 18, 2000).

and mismanagement.’³³

But the Federal Aviation Administration is not the only Transportation agency with problems. The IG identified overpayments as a major problem at the Federal Highway Administration. According to the IG, the Federal Highway Administration made 42 duplicate payments to the State of Georgia, totaling \$1.6 million, resulting from weaknesses in the Administration’s poor billing process.³⁴

³³General Accounting Office, “Major Management Challenges and Program Risks: Department of Transportation,” GAO-01-253 (January 2001).

³⁴Department of Transportation, Office of Inspector General, “Semiannual Report to the Congress” (March 2000).

XVI. Department of the Treasury

Certain significant financial systems weaknesses; problems with fundamental record keeping and financial reporting; incomplete documentation; and weak internal controls; including computer controls, have undermined the U.S. government's ability to obtain an opinion on the reliability of its financial statements for the 3 years that we have reported on these statements.

David M. Walker
Comptroller General of the United States

States¹

The Department of the Treasury's mission is to promote a prosperous and stable economy; manage the government's finances; protect our financial systems and lenders; and foster a safe and drug-free America. The Department is organized into 13 bureaus and 12 offices. They include the U.S. Customs Service; the Bureau of the Public Debt; the Financial Management Service; the Bureau of Alcohol, Tobacco, and Firearms; and the Internal Revenue Service.

The Department of the Treasury faces a number of systemic and long-standing management problems. On December 1, 2000, IG Jeffrey Rush provided Senator Fred Thompson, Chairman of the Senate Committee on Governmental Affairs, with an assessment of the most serious management challenges facing the Department.² The most serious challenges, which are listed below, are summarized in the following sections:

- Information security;
- Treasury's information technology investment management;
- Money laundering/bank secrecy;
- Trade enforcement and narcotics interdiction;
- Revenue protection;
- Financial management at Treasury; and
- Safety and soundness of the banking industry.

In addition to these systemic problems, other studies have identified cases of either criminal or inappropriate behavior by individuals:

- An official at the Bureau of Alcohol, Tobacco, and Firearms retired on July 31, 2000, after an investigation revealed that he had misused government equipment and official travel to conduct business related to a non-profit organization he founded. The official, who had a telephone for the organization installed on a support staff member's desk, also

¹General Accounting Office, "Major Management Challenges and Program Risks: Department of the Treasury," GAO-01-254 (January 2001), p. 10.

²Department of the Treasury, Office of Inspector General, "Top Ten Management Challenges for the Department of the Treasury" (December 1, 2000).

directed his staff to perform work on government time for a private company owned by a personal friend.³

- A Senior Research Specialist resigned after it was revealed that he improperly used his official position, time and government resources. The analyst gathered and solicited information about the Church of Scientology and acted as an unpaid consultant to members of a group opposed to Scientology while on official duty. He also actively assisted in the creation of an Internet web site designed to discredit members of the Church of Scientology while on official duty.⁴
- A maintenance employee at the Philadelphia Mint was stealing coins from the Mint.⁵
- An employee with the Office of the Comptroller of the Currency received reimbursement payments for travel that was never taken. Specifically, he entered false data into the Time and Travel Reporting System; funds were then electronically deposited into his personal bank account.⁶
- A Time and Attendance Clerk for the Office of the Comptroller of the Currency falsified her own time and attendance records between 1997 and 1998. As a result of her falsifications, she was paid approximately \$23,000 in overtime pay for time that she did not work.⁷

Information Security

Protecting information and data from unauthorized access is critical to ensure the integrity of Treasury's law enforcement and financial operations. As information becomes more accessible through the Internet, threats to security increase. These threats have resulted in various initiatives to improve the government's infrastructure. One initiative, Presidential Decision Directive 63, requires the development of a reliable and secure information system.

Such a system is essential to protect Treasury's information infrastructure from physical and electronic threats. Although Treasury has achieved some of its security goals, more needs to be done. For example, audits have found significant, long-standing weaknesses in the U.S. Customs Service's ability to maintain continuity of operations as well as overall security and access control.⁸ As a result of these issues, the IG issued a "7-Day" letter to the Secretary of the

³Department of the Treasury, Office of Inspector General, "Semiannual Report to the Congress" (September 30, 2000), p. 17.

⁴*Ibid.*, p.17.

⁵*Ibid.*

⁶*Ibid.*, p. 18.

⁷*Ibid.*, p. 19.

⁸Department of the Treasury, Office of Inspector General, "Top Ten Management Challenges for the Department of the Treasury" (December 1, 2000).

Treasury on May 26, 2000, who in turn notified Congress.⁹ The letter recommended that the Customs Service take immediate steps to develop its alternative site for continuity of operations and install detection software to reduce the risk of unauthorized Internet access. Financial statement audits have identified Electronic Data Processing general control weaknesses at other Treasury bureaus as well, most notably the Financial Management Service.

Treasury's Information Technology Investment Management

The Treasury Department invests nearly \$2 billion annually on information technology. The law requires the Department to improve capital planning, investment controls, project management, systems development, and performance measurement in this area. Treasury's weaknesses in effectively managing major investments have been well documented over the past several years for such systems as the Internal Revenue Service Tax System Modernization and the Customs Automated Commercial Environment initiative. Last year, the Inspector General issued a report noting that Departmental practices needed improvement if they were to be able to provide executive direction and effective management over information technology investments.¹⁰

Money Laundering/Bank Secrecy

It is estimated that criminals launder hundreds of billions of dollars globally each year. GAO recently reported that the nation's largest bank "failed to follow federal guidelines to prevent money laundering and allowed as much as \$800 million in suspicious Russian funds to flow through 136 accounts."¹¹ GAO also reported that a second bank allowed \$600 million in suspicious Russian funds to flow through 100 accounts because of lax enforcement. The Office of the Comptroller of the Currency should uncover such instances of money laundering through its examinations of national banks for safety, soundness and compliance. In an audit of the Office, however, the IG identified the need to strengthen examination procedures in several areas. The IG found that examiners did not always perform a complete examination, which should include (1) following up on indicators of suspicious activity and (2) performing sufficient reviews of high-risk accounts.

The IG's work on Customs' strategic money laundering initiatives has revealed opportunities for expanding its intelligence capabilities. The IG also determined that Customs' "Report of Transportation of Currency or Monetary Instruments" was outdated. Certain travelers checks,

⁹ The law requires the IG to report to the Secretary of the Department whenever a particularly serious deficiency in the operations of the Department becomes apparent. Under the same provision of law, the Secretary is then required to transmit a report to the appropriate committees or subcommittees of Congress within 7 calendar days.

¹⁰ Department of the Treasury, Office of Inspector General, "Top Ten Management Challenges for the Department of the Treasury" (December 1, 2000).

¹¹ *Ibid.*

money orders, and foreign bank drafts, were not required to be reported even though they had been categorized as reportable instruments under revised regulations.¹²

Narcotics Interdiction and Trade Enforcement

The Customs Service ensures that goods and people entering and leaving the United States do so in accordance with U.S. laws. It is also largely responsible for preventing the entry of illegal narcotics into the country. Its inspection, investigative, intelligence, canine, marine, and air interdiction activities are key to the Office of National Drug Control Policy's national supply reduction strategy.

Despite years of concerted effort, drug smuggling continues unabated. As an indicator of the magnitude of the illicit drug trade, over 1,120 tons of cocaine entered the United States during fiscal year 1999. For the same period, the Customs Service reported that it had seized 172 tons of cocaine.¹³ Audits by the IG have disclosed that the Customs Service needs better narcotics examination criteria, better targeting systems, and more consistency in the performance and reporting of narcotics examinations.

In fiscal year 2001, the Customs Service expects to process 25 million entry summaries valued at \$1.3 trillion, 503 million persons, and 149 million conveyances. However, the automated system that the Customs Service uses to process merchandise is outdated. The system also has significant control weaknesses. For example, the IG recently issued a report detailing a programming flaw in the Air Automated Manifest System that can allow merchandise and contraband, including narcotics, to enter the county without Customs inspection, thereby compromising Customs enforcement efforts.¹⁴

The Customs Service recognizes that its ability to process the growing volume of imports, while improving compliance with trade laws, depends heavily on its modernization of the trade compliance process and related supporting automated systems. The success of this effort is contingent on how well and how soon the Customs Service is able to implement the Automated Commercial Environment, the Service's information technology project to facilitate the movement of goods into and out of the United States.

Revenue Protection

In fiscal year 1999, the Customs Service collected approximately \$22.0 billion, while the Bureau

¹²*Ibid.*

¹³*Ibid.*

¹⁴*Ibid.* (An entry summary is a formal declaration provided by each importer or broker that supplies details on what is being imported, how much is being imported, and the duties or fees associated with these imports. It also identifies the appropriate harmonized tariff schedule code.)

of Alcohol, Tobacco and Firearms collected another \$12.1 billion, making them the nation's second and third largest sources of revenue, respectively.¹⁵ The IG believes that the Customs Service could significantly reduce lost revenue through its planned large-scale systems improvements. This is a major challenge, but when system improvements are completed, Customs should be in a much better position to handle electronic commerce and control the tens of billions it collects annually in duties, excise taxes, and fees.

The Bureau of Alcohol, Tobacco and Firearms can further strengthen its controls to ensure all alcohol, tobacco, and firearms excise taxes are collected. For example, the IG found that a lack of controls resulted in the Bureau being "unable to locate file documentation supporting the tax-free status of 149 tobacco export shipments with a tax value of \$65.6 million. Also, [the agency] closed 350 shipments with an excise tax value of \$21.3 million that either lacked documentation to support exportation or had inadequate documentation. In addition, [the agency] had not timely resolved about 25,500 notices of removal with a potential tax liability of \$59 million. This was a follow-up to a September 1999 audit that found similar problems with tax-free exports of distilled spirits."¹⁶

Financial Management at Treasury

The Treasury Department is responsible for preparing the U.S. government's financial statements, which are audited by GAO. GAO has reported that the federal government is not able to properly and consistently compile financial statements, identify and eliminate intragovernmental transactions, or reconcile the results of operations in the financial statements with the budget results. Inaccurate or incomplete financial information provided to Treasury by other federal agencies causes many of these problems. Concerted and coordinated efforts are needed at the Treasury Department and other federal agencies to address these problems.

- The Department's fiscal year 2000 consolidated financial statements identified two material weakness, two reportable conditions, and five instances where the Department was not in compliance with existing laws and regulations.¹⁷

Safety and Soundness of the Banking Industry

With combined assets exceeding \$7.2 trillion, commercial banks and thrifts are important in domestic and world economies. The banking system serves the financial needs of commerce,

¹⁵*Ibid.*

¹⁶*Ibid.*

¹⁷Department of the Treasury, Office of Inspector General, Office of Audits, Fiscal Year 2000 Consolidated Financial Statements, OIG-01-050 (February 2001).

local communities, and individuals. These needs are met through a vast array of financial services ranging from credit systems to payment systems to over-the-counter exchanges. Clearly, a safe and sound banking system is a precondition for stability within our financial system.

The Treasury Department regulates and supervises a substantial portion of the banking system. With combined assets of over \$4.2 trillion, Treasury's regulated banks and thrifts account for over 58 percent of total industry assets. In addition, regulated national banks account for the vast majority of the off-balance-sheet assets, also known as financial derivatives, which are estimated to exceed \$35 trillion.¹⁸

For nearly a decade the banking industry has experienced record profits, and bank failures continue to be minimal with less than 10 per year since 1995. However, for the second quarter of calendar year 2000, the banking industry's earnings not only declined but also were the lowest since 1997.¹⁹ In addition to economic factors, banks are experiencing added regulatory and supervisory challenges. Recent legislation lifted decades-old restrictions on affiliations between banks, securities firms, and insurance companies. With these changes, additional supervisory challenges may arise in other areas such as money laundering, financial privacy, and the expanded sharing of regulatory responsibility under the new law's functional regulation provisions.

The IG's review of the failure of Keystone National Bank identified areas where bank examination procedures could be strengthened. Keystone's failure is expected to cost the Bank Insurance Fund over \$700 million. Yearly examinations of Keystone from 1992 through 1999 repeatedly uncovered unsafe and unsound banking practices and regulatory violations.²⁰ Enforcement actions, however, proved ineffective in getting Keystone to fully address its operating problems. Also, the IG observed excessive reliance was placed on third-party information, such as the annual independent financial audits.

¹⁸Department of the Treasury, Office of Inspector General, "Top Ten Management Challenges for the Department of the Treasury" (December 1, 2000).

¹⁹*Ibid.*

²⁰*Ibid.*

Internal Revenue Service (IRS)

While the examples above describe the general state of mismanagement at the Treasury Department, a closer examination of its major component - the Internal Revenue Service - reveals how dangerous the situation in the Department has become. In fact, Comptroller David Walker recently wrote that,

IRS lacks reliable cost and operational information to measure the effectiveness of its tax collection and enforcement programs and to judge whether it is appropriately allocating its staff resources among competing management priorities.

The Internal Revenue Service has the responsibility for collecting taxes, processing tax returns, and enforcing the nation's tax laws. The IRS is a large, complex, decentralized organization with about 100,000 people in 10 service centers, 3 computing centers, and numerous other field offices that it operates throughout the United States. The agency is currently undergoing a reorganization that is significantly affecting the roles and responsibilities of these offices. In fiscal year 2000, the agency collected over \$2 trillion in taxes, processed over 210 million tax returns, and paid about \$194 billion in refunds to taxpayers.

In January 2001, GAO updated their "high-risk list." These are the areas of the federal government that are particularly susceptible to fraud, waste, abuse, or mismanagement. Six of the areas on the list apply to the IRS: strategic human capital management, information security, IRS tax systems modernization, IRS financial management, earned income credit noncompliance, and collection of unpaid taxes. Clearly, the IRS faces a number of systemic and long-standing management problems.

On December 1, 2000, David C. Williams, the Treasury Department's IG for Tax Administration, provided Senator Fred Thompson with an assessment of the most serious management challenges facing the Department.²¹ The worst areas include the following:

- Modernization of the Internal Revenue Service;
- Financial Management;
- Security of the Internal Revenue Service's Information Systems;
- Providing Quality Customer Service Operations;
- Revenue Protection - Minimizing Tax Filing Fraud;
- Taxpayer Protection and Rights.

In addition to these systemic problems, other studies have identified cases of either criminal or inappropriate behavior by individuals.

²¹Department of the Treasury, Treasury Inspector General for Tax Administration, "Top Ten Management Challenges for the Internal Revenue Service" (December 1, 2000).

- In March 2000, an employee of the IRS pled guilty to unauthorized inspection of tax return information. The employee accessed the account of a relative without authorization or for official business.²²
- In June 2000, an employee was sentenced to 12 months probation after pleading guilty to one count of unauthorized use of a government computer. The employee accessed a tax account.²³
- An investigation revealed that an employee was receiving free dental treatment from a dentist in exchange for abating approximately \$20,000 in tax penalties and interest, and lowering the dentist's monthly tax installment payment from \$5,000 to \$3,000 per month.²⁴
- In January 2000, an employee received \$3,000 in U.S. Postal money orders as payment on a taxpayer's liability. The employee did not process the remittances. Instead, in late July, the employee provided the money orders to the employee's landlord as partial payment on overdue rent.²⁵

Modernization of the Internal Revenue Service

Modernization of the IRS includes the restructuring of the organization and the modernization of technology. On October 1, 2000, the Service achieved its first milestone by putting into effect a new organizational structure that should ultimately serve taxpayers better and support the employees in an improved work environment. This structure is far from complete. Modernizing the IRS is a long-term effort, with probably a decade remaining of updating technology, revamping business practices, and refining measures of organizational performance. Risks will remain throughout the process.

Modernization of IRS's technology is crucial to implementing this effort. The modernization of computer systems and the security of taxpayer information have been major concerns over the past several years. For more than a decade, at a cost of \$4 billion, the IRS has been attempting to modernize its antiquated tax systems.²⁶

²²Department of the Treasury, Treasury Inspector General for Tax Administration, "Semiannual Report to the Congress" (September 30, 2000), p. 30.

²³*Ibid.*, p. 30.

²⁴*Ibid.*, p. 31.

²⁵*Ibid.*, p. 33.

²⁶Department of the Treasury, Treasury Inspector General for Tax Administration, "Top Ten Management Challenges for the Internal Revenue Service" (December 1, 2000).

Financial Management

Financial management also continues to be a concern. The agency's financial systems still cannot produce the reliable information necessary to prepare financial statements in accordance with federal accounting standards. GAO rendered an unqualified opinion on the IRS's Fiscal Year (FY) 2000 statements. However, according to GAO, "IRS's approach to obtaining this unqualified opinion on its fiscal year 2000 financial statements relied heavily on costly, time-consuming processes, statistical projections, external contractors, substantial adjustments, and monumental human efforts that extended well after the September 30, 2000 fiscal year-end."²⁷

Based on examples from the financial audit of the IRS's Fiscal Year 2000 financial statements, these efforts are falling far short of what is required to prepare the IRS for the next century. GAO found that IRS's records contained errors and that there were significant delays in recording activity in taxpayer accounts. During their statistical sample of unpaid tax assessments, GAO found the following problems:²⁸

- *Significant delays—of up to 12 years—in recording payments made by taxpayers to related taxpayer accounts.* Some payments were not recorded at all in related taxpayer accounts. Some of these delayed or unrecorded payments were made in the late 1980s.
- *Delays in updating information in taxpayer accounts.* In two cases, IRS's failure to input or reverse information resulted in refunds that should not have been issued because the taxpayer had other outstanding tax liabilities. In each of these cases, the inappropriate refund was more than \$4,000.
- *Input errors.* A deceased individual's estate sent a payment of \$68 million to IRS in January 1999, but the IRS recorded the payment to the wrong taxpayer account. The taxpayer's estate was actually owed a refund of almost \$7 million. This input error was not corrected until almost 2 years later. Consequently, IRS did not pay the refund to the estate for nearly 2 years after it was owed.

There were also significant deficiencies in the IRS's treatment of equipment:²⁹

- The IRS was unable to locate 35 items (16 percent) in a sample of 220 items taken from their property records. The items included computers, monitors, printers, and computer software. IRS later determined that 23 of these items had been disposed of months earlier, but that their records had not been updated to reflect the disposal. Also, 14 of 219

²⁷General Accounting Office, "Financial Audit: IRS' Fiscal Year 2000 Financial Statements," GAO-01-394 (March 2001), p. 6.

²⁸*Ibid.*, p. 87.

²⁹*Ibid.*, p. 93.

sample items (6 percent) selected at 22 sites could not be traced to IRS's records.

- At 18 of the 22 buildings that were visited, there were inaccurate property records consisting of either items not at the site as recorded, or items at the site but not on the records.
- Error rates of 32 and 25 percent, respectively, existed in a sample of beginning and ending balances of undelivered orders. These errors were primarily due to goods and services having been received but not deducted from undelivered orders. Of one undelivered order from fiscal year 2000 totaling \$7.9 million for computer equipment, approximately \$3.4 million of the equipment had been delivered but had not been removed from the undelivered orders balance.

In another case, it was determined that IRS was not complying with their own hiring policies. Last year, GAO reported that the IRS was hiring individuals and allowing them access to cash, checks, and other taxpayer data before it received satisfactory results of their fingerprint checks. In response, IRS issued a new policy in April prohibiting the hiring of applicants in any IRS office until fingerprint checks were completed. However, GAO found that 145 of the 2,526 staff hired from the time the policy was issued through September 30, 2000, began working before IRS received the results of their finger print checks.³⁰

Finally, GAO reported that IRS continues to be unable to determine the specific amount of revenue it actually collects for three of the government's four largest revenue sources—Social Security, Hospital Insurance, and individual income taxes. In addition, IRS continues to be unable to determine the collections for the Highway Trust Fund or other trust funds that receive excise tax receipts at the time payments are received.³¹

Security of the Internal Revenue Service's Information Systems

The IRS Commissioner has stated that protecting taxpayer information and the systems used to deliver services to taxpayers is key to the success of a customer-focused Internal Revenue Service. In the past, the security of taxpayer data has been problematic, particularly in the area of unauthorized browsing of taxpayer records. As the primary revenue collector for the United States, the IRS is a target for both terrorists and hackers. This threat has increased over the last few years as more computers are being linked together. Disgruntled employees also represent a major threat, particularly with the turmoil that the IRS is experiencing during its reorganization process. Information security will be a continuous challenge to the IRS as long as computer

³⁰General Accounting Office, "Internal Revenue Service: Progress Continues But Serious Management Challenges Remain," GAO-01-562T (April 2, 2001).

³¹General Accounting Office, "Financial Audit: IRS' Fiscal Year 2000 Financial Statements," GAO-01-394 (March 2001), p. 99.

systems exist. New security vulnerabilities are always being discovered as new technology and equipment are added. Access control weaknesses also continue to be a perennial problem for the IRS.³²

- During last year's tax filing season, the IRS did not take adequate steps to protect the security of electronic filing systems and electronically transmitted taxpayer data. As a result, unauthorized individuals, both inside and outside the IRS, could have gained access to the IRS electronic filing systems and viewed and modified taxpayer data.³³

Providing Quality Customer Service Operations

The IRS has invested heavily in technology but has not significantly improved telephone service to taxpayers. The agency centralized the management of the toll-free telephone system, invested in new technology, committed significant enforcement resources to answering telephones, and expanded the hours of operation in an effort to better serve taxpayers. Nevertheless, in 1999, the IRS did not provide an increased level of quality telephone service to taxpayers in an economical manner.

In addition, the IRS's performance in providing toll-free telephone service compares unfavorably with private sector organizations recognized as providing "world class" service. The level of service provided to taxpayers on the 3 main telephone lines declined from 73 percent in the prior-filing season to 51 percent in 1999, and almost 16 million more taxpayers received busy signals. Also, during the first 6 months of fiscal year 1999, the accuracy of answers to tax law questions, as self-reported by the IRS, declined from 79 percent to 72 percent. For the same period, total labor costs increased by over \$30 million from the prior fiscal year, even though 1.4 million fewer calls were answered.³⁴

A recent investigation by the IG, however, demonstrates the need for improvement. Over a four-day period during this year's tax filing season, auditors from the IG "made 368 random test calls to the IRS' toll-free number and were unable to gain access 37% of the time. When successful in getting through, the IRS incorrectly responded 47% of the time."³⁵

³²Department of the Treasury, Treasury Inspector General for Tax Administration, "Top Ten Management Challenges for the Internal Revenue Service" (December 1, 2000).

³³General Accounting Office, "Information Security: IRS Electronic Filing Systems," GAO-01-306 (February 2001).

³⁴Department of the Treasury, Treasury Inspector General for Tax Administration, "Top Ten Management Challenges for the Internal Revenue Service" (December 1, 2000).

³⁵Department of the Treasury, Treasury Inspector General for Tax Administration, Testimony by the Honorable David C. Williams before the Subcommittee on Oversight, House Committee on Ways and Means (April 3, 2001).

Revenue Protection - Minimizing Tax Filing Fraud

The IRS must continually seek opportunities to protect revenue and minimize tax-filing fraud in its programs and operations. In August 2000, the Service released its most recent Earned Income Credit compliance study. The study's central finding is that an estimated \$7.8 billion (25.6 percent) should not have been paid. These results show that the IRS needs to continue to be innovative and aggressive in its compliance efforts.³⁶

The IRS still faces significant challenges in the business tax return arena. Despite extensive efforts it has made to detect and stop fraudulent claims, relatively little effort has been made to systematically identify refund schemes involving business returns and associated credits. A few business schemes have been identified but it has generally been through labor intensive manual procedures. The IRS is concerned that fraudulent refund claims may be expanding to include business returns and that scheme perpetrators continue to develop new methods to defraud the system. The IG is concerned that current controls may be bypassed and, as a result, has initiated a review in this area.

Taxpayer Protection and Rights

The IG has reported improvement in the IRS's compliance with many provisions of the IRS Restructuring and Reform Act. Yet some provisions of that Act need continued monitoring because the IRS is not in full compliance. These include restricting the use of enforcement statistics to evaluate IRS employees, not designating taxpayers as illegal tax protesters, providing proper and timely notice that a federal tax lien has been filed, and not improperly withholding information in response to taxpayers' written requests for information.

³⁶Internal Revenue Service, "Compliance Estimates for Earned Income Tax Credit Claimed on 1997 Tax Returns" (August 2000).

XVII. Department of Veterans Affairs

A national nursing shortage could adversely affect [the Department's] efforts to improve patient safety in [Department] facilities and put veterans at risk.

David M. Walker
Comptroller General of the United States¹

The Department of Veterans Affairs is the nation's second largest department in terms of staffing. Its mission is to serve America's veterans and their families by providing health, disability, education, and housing benefits, as well as interment and memorial services. There are an estimated 24.8 million veterans.

As of last year, the Department had approximately 204,100 employees. It maintains facilities in every state of the Union, the District of Columbia, the Commonwealth of Puerto Rico, Guam, and the Philippines. Approximately 187,000 of its employees work in the health care system. Health care is funded at approximately 43 percent of the budget and is provided to an average of 58,100 inpatients daily. Slightly more than 40 million episodes of care are estimated for outpatients. There are 172 hospitals, 766 outpatient clinics, 134 nursing home units, and 40 domiciliaries. Veteran benefits, including compensation benefits, pension benefits, and life insurance, are funded at almost 55 percent of the VA's budget.

The Department of Veterans Affairs suffers from several systemic and long-standing management problems. On November 28, 2000, Richard J. Griffin, the Department of Veterans Affairs IG, provided Senator Fred Thompson, Chairman of the Senate Committee on Governmental Affairs, with an assessment of the most serious management problems facing the agency.² The challenges, which are discussed below, include the following:

- Health care quality management and patient safety;
- Claims processing, appeals processing, and timeliness and quality of compensation and pension medical examinations;
- Inappropriate benefit payments;
- Security of systems and data;
- Debt management;
- Workers Compensation costs; and
- Procurement practices.

In addition to these systemic problems, other studies have identified cases of either criminal or

¹General Accounting Office, "High-Risk Series: An Update," GAO-01-263 (January 2001), p. 79.

²Department of Veterans Affairs, Office of Inspector General, "Top Ten Management Challenges for the Department of Veterans Affairs" (November 28, 2000).

unethical behavior by individuals. For example:

- A registered nurse at a medical center diverted controlled substances from the medical center for his own use.³
- A pharmacy technician was arrested with four shopping bags filled with pharmaceuticals and controlled substances that were stolen from a medical center. The drugs had a value of more than \$21,000.⁴
- A registered nurse diverted more than 60 doses of controlled substances from Department supplies for personal use.⁵
- A former warehouse worker stole \$20,000 in computer equipment from the Department.⁶
- A company charged the Department for installing adaptive equipment into vans sold to disabled veterans. In fact, the equipment was never installed.⁷

Health Care Quality Management (QM) and Patient Safety

One of the most serious challenges facing the Department is the need to maintain a highly effective health care program. In too many cases, health care facilities are antiquated; waiting times for treatment are at times excessive; there is a problem with cleanliness; and there is not enough patient privacy. This is further complicated by the need to ensure high-quality, safe patient care in an environment that is rapidly evolving to an outpatient setting from the traditional inpatient care.

One of the principal issues that continues to present a management challenge is the Veterans Health Administration's inability to provide consistent clinical quality and safety. To complicate this problem, managers have not prescribed any consistent staffing patterns for medical center quality management departments throughout the country. Thus, no two medical centers' quality management departments focus on the same issues in the same way. These differences impede the Department's ability to identify and correct unsatisfactory practices. Reports from the IG detail a variety of problems:

- “The physical environment of the operating room is unacceptable. Several employees told us that the operation room was not clean. Inspectors confirmed these conditions.

³Department of Veterans Affairs, Office of Inspector General, “Semiannual Report to the Congress” (September 30, 2000), p. 17.

⁴*Ibid.*, p.18.

⁵*Ibid.*

⁶*Ibid.*, p. 19.

⁷*Ibid.*, p. 25.

They found that water leaks had damaged the ceilings and walls. The walls have peeling paint that is easily dislodged by touch. The floors are badly rutted and stained, and therefore difficult to keep clean. Nursing employees told us that they had raised these issues, but that they did not believe managers had made repairs a high priority.”⁸

- “Patients were located in the hallway, with oxygen tubing running across the floors of patients rooms and the hallway, creating a falling hazard for employees. This latter hazard also created the potential for accidentally disconnecting the patient from the oxygen source.”⁹
- The Nutrition and Food Service, which provides food to one Veterans Affairs hospital “shares the loading dock with the Environmental Management Service’s hazardous waste containers. Dirty Environmental Management Service and red biohazard carts are located next to the area where food is transported to the kitchen.”¹⁰
- “Inspectors observed cooking equipment that needed to be cleaned, sitting on open racks. Bulk frozen food items were lying on carts, and the carts themselves were blocking egress from the Canteen. The refrigerators contained uncovered, open food containers. Inspectors also observed instances in which employees did not wash their hands between handling customers’ money and handling food.”¹¹
- “Medication security was inadequate in some areas of the medical center. Unauthorized employees could readily access a . . . medication room . . . and a medication refrigerator . . . was found to be unlocked. Reviews . . . revealed numerous incidents of unsecured medications on the inpatient units. Inspectors found outdated medications in a room . . . even though the room is not designated as a medication room.”¹²
- “[L]ack of sufficient staffing in clinical support services such as Radiology, Pharmacy, and Pathology and Laboratory Medicine Service, as well as a general lack of clerical support, has greatly impacted upon the facility’s ability to deliver timely, quality services in the primary care setting and has contributed to longer waiting times and delayed patient treatment.”¹³
- “Over 35 specialty clinics across the system exceed 30-day wait times for appointments, and some appointment wait times approach 1 year. Further, both Urgent Care and emergency room personnel reported that they often experience delays in obtaining results

⁸Department of Veterans Affairs, Office of Inspector General, “Combined Assessment Program Review,” 00-00025-37 (April 3, 2000), p. 9.

⁹Department of Veterans Affairs, Office of Inspector General, “Combined Assessment Program Review,” 00-01199-72 (May 25, 2000), p. 7.

¹⁰*Ibid.*, p. 11.

¹¹*Ibid.*

¹²*Ibid.*, p. 15.

¹³Department of Veterans Affairs, Office of Inspector General, “Combined Assessment Program Review,” 00-00933-88 (June 19, 2000), p. 5.

- of ‘stat’ laboratory tests, reportedly often due to technical problems, which further exacerbates the problem of patient waiting times.”¹⁴
- “Cleanliness, safety of non-patient areas, and patient privacy . . . need management attention. We found [a nursing home care unit] dirty and it had a detectable pungent odor on the day of our survey. . . . The congregate bath was on the main hall. It afforded little privacy, as the door was propped open with only a curtain in place.”¹⁵
 - “[It] appeared that three nursing home unit patients did not receive their evening meal trays, and clinicians assembled their meals from other patients’ trays. . . . In another instance, employees told us that a diabetic patient had been inappropriately given sugar packets and jelly. The Nutrition Services’ quality control monitor on meal tray errors showed that tray errors increased from 6 percent in April to 24 percent in May 2000. . . . We reviewed the food service galley . . . and found bananas that were overripe and infested with fruit flies. These bananas had been washed and prepared for patients. Several food service employees told us that it was not uncommon for Nutrition Service to accept poor quality produce.”¹⁶
 - “Local policy required the presence of a gynecology attendant to chaperone all pelvic examinations in the Women Veterans’ Treatment Program. In addition to chaperoning pelvic examinations, the attendant’s duties included preparing pap smears and culture slides. We found that managers had not ensured that a trained gynecology attendant would be consistently available to assist physicians during pelvic examinations. . . . We also found that when untrained attendants were used to provide these services, the laboratory tests were often invalid because of improper specimen preparation. Invalid test results require that patients return to the clinic to repeat the procedure, and often cause unnecessary anguish and inconvenience for the patients.”¹⁷

Claims Processing, Appeals Processing, and Timeliness and Quality of Compensation and Pension Medical Examinations

The Veterans Benefits Administration needs to improve the processing and timeliness of benefits claims processing. Numerous studies have addressed timeliness and quality issues with their compensation and pension claims processing system. The system is used for the overall administration of almost \$23 billion in compensation and pension payments to veterans annually.

¹⁴*Ibid.*, p. 9.

¹⁵Department of Veterans Affairs, Office of Inspector General, “Combined Assessment Program Review,” 00-01202-107, (August 18, 2000), p. 4.

¹⁶Department of Veterans Affairs, Office of Inspector General, “Combined Assessment Program Review,” 00-02003-108 (August 18, 2000), p. 8.

¹⁷Department of Veterans Affairs, Office of Inspector General, “Combined Assessment Program Review,” 00-01225-109 (August 31, 2000), p. 10.

Claims processing: The Veterans Benefits Administration is struggling with timeliness of claims processing. It faces a high workload backlog and unacceptably long time to process claims. The number of pending compensation claims for fiscal year 2000 averaged about 360,000, and it took about 185 days for claims to be processed.¹⁸

Appeals Processing: According to GAO, the average time to resolve veterans' appeals of claims decisions continue to exceed 2 years in 1999.¹⁹ Large claims backlogs have continued to impact the Department's ability to provide veterans with timely service; in some cases, veterans have had to wait years for decisions on their claims.

Timeliness and Quality of Medical Examinations: Disability benefit payments are based, in part, on interpretations of medical evidence by the Veterans Benefits Administration disability rating specialists. That evidence is developed by physicians or private contractors through examination of the veteran. Proper medical examination services are important because the Administration cannot complete payment on veterans' disability claims until examination results are received. When a medical examination is not performed correctly, the veteran's claim is delayed until another examination is scheduled and completed. This usually results in significant claim processing delays. While management had made some changes to this process, little improvement had been made.²⁰

Inappropriate Benefit Payments

The Veterans Benefits Administration needs to develop and implement an effective method to identify inappropriate benefit payments. Recent audits found that the appropriateness of payments has not been adequately addressed. Some of the problem areas are described below.

Payments to incarcerated veterans: A review found that Department officials did not implement a systematic approach to identify incarcerated veterans and dependents and adjust their benefits as required by the law. Of 527 veterans randomly sampled from the population of veterans incarcerated in 6 states, the Department had not adjusted benefits in over 72 percent of the cases requiring adjustment, resulting in overpayments totaling \$1.8 million. Projecting the sample results nationwide, the IG estimates that about 13,700 incarcerated veterans have been, or will be, overpaid about \$100 million. Additional overpayments totaling about \$70 million will be made over the next 4 years to newly incarcerated veterans and dependents if the Department does

¹⁸Department of Veterans Affairs, Office of Inspector General, "Top Ten Management Challenges for the Department of Veterans Affairs" (November 28, 2000).

¹⁹General Accounting Office, "Major Management Challenges and Program Risks: Department of Veterans Affairs," GAO-01-255 (January 2001), p. 27.

²⁰U.S. Department of Veterans Affairs, Office of Inspector General, "Top Ten Management Challenges for the Department of Veterans Affairs" (November 28, 2000).

not establish a systematic method to identify these prisoners.²¹

Payments to deceased beneficiaries: The Veterans Benefits Administration needs to develop and implement a more effective method to identify deceased beneficiaries and to terminate their benefits, in order to avoid situations like the following:

- One woman failed to notify the Department of the death of her mother, a beneficiary who was receiving compensation benefits. The woman allowed the Department to continue to electronically deposit the funds into a bank account she had shared with her mother, thereby receiving \$78,500 in inappropriate payments. She was later indicted and charged with five counts of theft.²²

Benefit overpayments due to unreported beneficiary income: An audit found that opportunities exist for the Department to accomplish the following goals: significantly increase the efficiency, effectiveness, and amount of potential overpayments that are recovered; better ensure program integrity and identification of program fraud; and improve delivery of services to beneficiaries. The potential monetary impact of these findings to the Department was \$806.3 million. Of this amount, the IG estimated potential overpayments of \$773.6 million associated with benefit claims that contained fraud indicators, such as fictitious Social Security numbers.²³

Benefit overpayment risks due to internal control weaknesses: Three employees embezzled nearly \$1.3 million by exploiting internal control weaknesses in the benefit program. An assessment identified 18 categories of vulnerability involving numerous technical, procedural, and policy issues.²⁴

Security of Systems and Data

The Department needs to improve physical and electronic security over its information technology resources. The Department requires automated data processing of transactions valued at over \$28 billion annually and maintenance of over 40 million sensitive veteran records. Security risk increases as data is shared among the Department's organizations. Multiple architectures and complex mission-specific systems throughout the Department increase the risk

²¹*Ibid.*

²²Department of Veterans Affairs, Office of Inspector, "Semiannual Report to the Congress" (September 30, 2000), p. 31.

²³Department of Veterans Affairs, Office of Inspector General, "Top Ten Management Challenges for the Department of Veterans Affairs" (November 28, 2000).

²⁴*Ibid.*

of inappropriate access and misuse of sensitive data.²⁵

Debt Management

As of September 1999, debt owed to the Department totaled over \$3.2 billion. This debt had resulted from home loan guaranties, direct home loans, medical care cost fund receivables, compensation and pension overpayments, and educational benefits overpayments. The IG has issued 15 reports over the last 6 years, addressing the Department's debt management activities. The recurring themes are that the Department should be more aggressive in collecting debts, improve debt avoidance practices, and streamline and enhance credit management and debt establishment procedures. Through improved collection practices, the Department can increase receipts from delinquent debt by tens of millions of dollars each year.

Workers Compensation Costs

The Federal Employees' Compensation Act provides benefits for disability or death resulting from an injury sustained in the performance of duty. The Department of Labor administers the program for all federal agencies. The benefit payments have two components— salary payments and payments for medical treatment for the specific disability. Medical treatment includes all necessary care, including hospitalization.

An audit in 1998 concluded that the program was not effectively managed and that by returning current claimants to work who are no longer disabled, the Department could reduce future payments by \$247 million. The IG also identified 26 potential fraud cases from a random sample. Based on the sample results, it was estimated there were over 500 fraudulent cases. In 1999, the IG completed an audit of high-risk areas in the Department's Workers Compensation Program. The audit found that Veterans Health Administration was vulnerable to abuse, fraud, and unnecessary costs associated with program claims in three high-risk areas reviewed (dual benefits, non-Department employees, and deceased claimants). The IG estimated that the Veterans Health Administration has incurred or will incur about \$11.2 million in unnecessary costs associated with claims in these high-risk areas.

For example, a former nurse was convicted on charges of submitting a false statement in order to receive workers' compensation benefits to which she was not entitled. She claimed she was unable to work due to an injury even though she was earning income working at her husband's home improvement business.²⁶

Procurement Practices

²⁵Ibid.

²⁶Department of Veterans Affairs, Office of Inspector, "Semiannual Report to the Congress" (September 30, 2000), p. 20.

The Department spends over \$5.1 billion annually for supplies, services, construction, and equipment. It faces major challenges to implement a more efficient and effective acquisition effort. The Department must also ensure that adequate levels of medical supplies, equipment, pharmaceuticals, and other supply inventories are on hand on a daily basis to satisfy demand. Inventories above those levels should be avoided so funds that could be used to meet other needs are not tied up in excess inventories.

Historically, procurement actions are at high risk for fraud, waste, abuse, and mismanagement. Vulnerabilities and business losses associated with theft, waste and damage of information technology are known to be significant. Recent reviews have identified the following serious problems with the Department's contracting practices and acquisitions.

Inventory management: Excessive inventories are being maintained, unnecessarily large quantity purchases are occurring, inventory security and storage deficiencies exist, and controls and accountability over inventories need improvement. At any given time, the value of the Veterans Health Administration-wide excess medical supply inventory was \$64.1 million, 62 percent of the \$103.8 million total inventory. Audits at four locations found that about 48 percent of the \$1.7 million pharmaceutical inventory were excess. Another audit at five locations concluded that 48 percent of prosthetic supply inventories were excessive. According to the IG:

We tested inventory levels. . . . The results of our tests revealed wildly inaccurate inventory data. . . . We found that, because of inaccuracies . . . , important supply items needed for patient care and maintained in stock for issue were expired or near expiration. . . . [D]uring our tour of . . . operations, we identified two other items . . . that had already expired. One of these two items had expired 15 months earlier, and one had expired 19 months earlier.²⁷

Purchase card use: There are significant vulnerabilities in the use of purchase cards. Work requirements have been split to circumvent competition requirements and some goods and services have been acquired at excessive prices and without regard to actual needs. Risk will escalate as purchase card use increases throughout the Department.

- *A former administrative clerk was arrested on charges of allowing individuals to use Government credit cards for personal use.²⁸*
- *A former respiratory therapist was sentenced to supervised probation and community service after it was disclosed he used a Government purchase card to buy over \$4,900*

²⁷Department of Veterans Affairs, Office of Inspector General, "Combined Assessment Program Review," 00-01199-72 (May 25, 2000), p. 39.

²⁸Department of Veterans Affairs, Office of Inspector, "Semiannual Report to the Congress" (September 30, 2000), p. 20.

*worth of household appliances and other items for personal use.*²⁹

²⁹*Ibid.*, p. 20.